

## **The Political Economy of Islamic Charities and Terrorist Financing**

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Paper Prepared for the CENTRA Conference on Terrorism Financing  
Arlington, VA November 29, 2005

“We operate every day with the knowledge that our enemies are changing based on how we change.”—Tom Ridge, Secretary of Homeland Security, March 31, 2004.<sup>1</sup>

“Ben Laiden understood better than most of the volunteers the extent to which the continuation and eventual success of the jihad in Afghanistan depended on an increasingly complex, almost worldwide organization. This organization included a financial support network that came to be known as the “Golden Chain” put together mainly by financiers in Saudi Arabia and the Persian Gulf States. Donations flowed through charities or other nongovernmental organizations (NGOs).” -- The 9/11 Commission Report<sup>2</sup>.

### **Introduction**

A commonly held view of terrorist financing that has emerged since September 11, 2001, is that of a global formal and informal financial system that terrorists can manipulate with ease. Diverse and dispersed sources of funding and methods of transferring funds are exploited by equally decentralized and flexible terrorist networks that can easily shift from one means to another in response to efforts to thwart their activities. Terrorists are also believed to rely on a variety of increasingly self-contained mechanisms like independent criminal ventures, diversion of funds from charities, and licit business ventures.<sup>3</sup>

Still, considerable mystery and intrigue cloaks the financing of contemporary terrorist organizations, especially those originating in the Middle

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<sup>1</sup> Remarks by Secretary Tom Ridge, US Secretary of Homeland Security, at the Center for Homeland Security's 2004 Homeland and Global Security Summit, 31 March 2004; available at <http://www.dhs.gov/dhspublic/display?content=3411>.

<sup>2</sup> The 9/11 Commission Report, p. 55.

<sup>3</sup> Jeanne K. Giraldo and Harold A. Trinkunas, “The Political Economy of Terrorist Finance and State Responses,” in Jeanne K. Giraldo and Harold A. Trinkunas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

East. The case of al Qaeda is typical. We know more today than we did three years ago about its financial methods and structure, but we have not identified much about its sources of supply and funding. And much of what we think we know may only be conjecture, or as the quote from Tom Ridge above suggests -- obsolete. The same gap in our knowledge applied to an even greater extent to many of the lesser known but equally violent terrorist groups throughout the region.

A widely cited estimate places al Qaeda spending around \$30 million per year to sustain itself in the period preceding 9/11. "But it is even less clear what al Qaeda needs or expends today<sup>4</sup>. And we still do not know with any precision just how much money al Qaeda raises, or how its funds are allocated<sup>5</sup>. What we do know that al Qaeda has traditionally relied on Islamic charities for much of its funding." The same is true for many like minded terrorist groups throughout the Middle East.

Charity forms a very important part of Muslim law and tradition. There is a recognized religious duty in the Muslim world to donate a set portion of one's earnings or assets to religious or charitable purposes (Zakat), and additionally, to support charitable works through voluntary deeds or contributions (Sadaqah).

In countries having no established income tax system (for example, Saudi Arabia or the United Arab Emirates), the Zakat substitutes as the principal source of funding for religious, social and humanitarian organizations. Funds are collected by the government, local mosques or religious centers. Sadaqah contributions are made directly to established Islamic charities. Because both Zakat and Sadaqah are viewed as personal religious responsibilities, there has traditionally been little or no government oversight of these activities. Donations in large measure remain anonymous. Both conditions combined with the often opaque financial and operating structure of Islamic charities provide an ideal environment for exploitation by terrorist groups.

Charitable organizations are also attractive targets for terrorist organizations because of the reluctance on the part of many countries to rigorously scrutinize their activities. Often with limited information, authorities are put in the awkward position of being pressured to discern between legitimate charity organizations and activities, those organizations that are unknowingly used by terrorists to divert funds, and others deliberately engaged

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<sup>4</sup> See The 9/11 Commission Report and National Commission on Terrorist Attacks Upon the United States, Monograph on Terrorist Financing, 9.

<sup>5</sup> Victor Comras, "Al Qaeda Finances and Funding to Affiliated Groups," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

in supporting terrorist groups. Leaders of the latter organizations often raise funds both from individuals purposely seeking to fund terrorist groups as well as from innocent contributors unwitting of the group's links to terrorists.<sup>6</sup>

The sections below examine the exploitation of charities by terrorist groups. What ways do terrorist groups exploit these organizations? Is this exploitation likely to increase? If so what forms might it take? Are existing policies sufficient to combat these developments? If not, how might the U.S. and other like-minded countries counter the evolving methods terrorists use to advance their cause through the exploitation of charities?

### Islamic Charities

While each the world's major religions place a high degree of importance on charitable acts and charitable giving, Islam gives charity an especially high place among the tenets of the faith. Charitable giving in the form of Zakat is one of the five pillars of the faith, a donation equal to 2.5 percent of annual income is required for all Muslims who have resources remaining after meeting the basic requirements of their family. While Zakat is the only required form of charity, additional voluntary giving is strongly encouraged, and takes various forms such as *infak* (a voluntary gift for a restricted purpose) and *sadaqah* (voluntary charity for unrestricted purposes).

The important role assigned to charity has led Islamic societies to develop a specialized set of institutions for managing charitable donations and, in some cases for managing the institutions that receive religious charitable proceeds. These institutions fall roughly into two categories. The first category managed charitable resources contributed (*waqf*) by a single individual (or more rarely, a family) either during his/her life or as part of a bequest. The funds falling in this category are usually dedicated to a specific purpose or set of purposes such as funding a mosque or hospital, while others serve more diverse purposes, including supporting the donor's family.

The second category, typified by the zekat fund, solicits and collects gifts from many individuals and then aggregates these funds for charitable purposes. The resulting funds are often on-granted directly to needy individuals, to nonprofit organizations that deliver services to the poor or provide other social services, or to other appropriate recipients. Some funds, by contrast, establish and operate such service delivery organizations themselves, such as hospitals, or schools.

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<sup>6</sup> Matthew A. Levitt, "The Political Economy of Middle East Terrorism," Middle East Review of International Affairs 6:4(December 2002), p.54.

### **Basic Dilemma**

The primary function of Islamic charities is to provide basic goods and services to communities in a manner deemed consistent with the values and teachings of Islam. This includes medical services through local clinics and hospitals, K-12 schools, universities and colleges, orphanages, vocational training centers, subsidies for poor families, and other grassroots activities. Islamic charities also collect donations to help Muslims outside their own country in places such as the Palestinian territories, Bosnia, Chechnya, and Kashmir.

Donations of this type have created problems for law enforcement in the war on terrorism because of the difficulty of determining whether money collected for a particular cause (helping the Palestinians rebuild their cities after the recent Israeli incursions, for example) is actually used for the originally specified purpose. In this sense diverting money through charities to terrorist organizations differs fundamentally from that of money laundering:<sup>7</sup>

The criminal phenomenon of money laundering can be described in practical terms. In the case of terrorist financing through the exploitation of charities, however, only the theory is clear: it is the reverse of money laundering. While money laundering is concerned with laundering assets of illegal origin and bringing them back into legal economic circulation, charity-based financing of terrorism is concerned with using legal assets for an illegal activity, namely terrorist attacks. In other words, with money laundering the illegal activity can be located at the beginning of the process whereas in terrorism financing the entire process is reversed.

Governments in the Middle East have shown great creativity and resourcefulness at preventing charities from raising money to overthrow them, but they are far less effective in making sure that money is not "redirected" once it leaves the country.

In some cases, Islamic charities have explicitly raised money for causes that threaten current U.S. government policy. Many Muslims, for example, especially those in the Middle East, view movements such as Hamas and Hizballah as national liberation movements, not terrorist organizations. As a result, Islamic charities have solicited funds for what they term "resistance to the Israeli occupation."

But Hamas and Hizballah are fundamentally different from al-Qaeda. They are nationalist Islamic movements that operate hospitals and schools, oversee charities, and run in local elections. Al-Qaeda, on the other hand, is a

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<sup>7</sup> Michael Lauber, "Financing Terror: An Overview," Terrorism Monitor 2:20 (October 21, 2004).

transnational revolutionary movement. Few Islamic charities publicly call for donations to groups like al-Qaeda. Even al-Qaeda fronts do not openly request money for violent activities. Instead, they seek donations for general charitable calls and only later siphon the money to terrorist operations.

The vast majority of Islamic charities, however, represent moderate Islamic interests and seek to implement the Quranic injunction to help others in need. In a sense, Islamic charities provide Muslims with an opportunity to put into practice the commands of God and fulfill their duties as Muslims. It is also seen as a way of demonstrating that "Islam is the solution" (a common Islamist campaign slogan) to a myriad of widespread social ills. Islamic charities provide a visible example of how Islam can be put to work to improve society and alleviate socioeconomic stagnation in the Muslim world.

### **Charity Exploitation by Terrorist Groups**

Following the Sept. 11 attacks, U.S. and allied counterterrorism agencies turned their scrutiny to Muslim charities -- resulting in the eventual closures of several. For some of the reasons noted above, these have been difficult cases for the government. In large part this stems from the fact that the Islamic charities fall into two categories: those that have had their funds unknowingly diverted and those that have been corrupted and act as fronts.<sup>8</sup>

Several conceptual problems arise in assessing the extent to which Islamic charities have been exploited by terrorist groups. Clearly the direct financial support of terrorist groups and their operations are clear-cut cases. On the other hand money is quite fungible and some charity organizers are adept at creating gray areas. A good example of this gray area is the Muslim World League (MWL) founded by Saudi Arabia in Mecca in 1962. The Saudi government provided the MWL with generous funding and charged it with the support and propagation of Wahhabi Islam. In turn the MWL supported institutions outside of Saudi Arabia, especially in Afghanistan, Pakistan, Southeast Asia and the Middle East. The organization also became active in Europe—including countries of the former Soviet Union—and North America. Saudi public and private support for these activities has been estimated at over

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<sup>8</sup> See the 9/11 Commission report; Also see Maurice R. Greenberg, chair, *Terrorist Financing: Report of an Independent Task Force*, (New York: Council on Foreign Relations, 2003; and Matthew A. Levitt, "The Political Economy of Middle East Terrorism," *Middle East Review of International Affairs*, vol. 6, no. 4, 49-65. Levitt M. 2002b. Combating Terrorist Financing, Despite the Saudis. *Policywatch* No 673, available at: <http://64.233.187.104/search?q=cache:BKQyUelGXj4J:www.washingtoninstitute.org/watch/Policywatch/policywatch2002/673.htm+POLICYWATCH+Combating+Terrorist+Financing,+Despite+the+Saudis+673&hl=en>

\$75 billion during the last four decades.<sup>9</sup> Many experts have drawn a link between this conversion effort and the rise in appeal of al Qaeda throughout the Muslim world. The line from Wahhabism to jihadism is a very thin one that is easily crossed, both religiously and intellectually.<sup>10</sup>

A not so gray area, but still one not falling in the category of direct support to terrorist groups. For example Holy Land Foundation for Relief and Development in Texas raised \$13 million in the United States in 2000 claiming that the money it solicited went to care for needy Palestinians, although evidence shows that Hamas used some of the money that the Foundation raised to support suicide bombers and their families.<sup>11</sup>

It is usually difficult to prove that a charity actually was founded with the intention of supporting terrorist groups, or that officials knowingly did so. As a result, counterterrorism officials and many Muslim donors are left virtually grasping at straws and seeking novel ways at overcoming the fungability problem – halting the flow of money to the direct or indirect support of terrorist groups..<sup>12</sup>

Investigators have few tools to help them distinguish between legitimate and illegitimate organizations, but some clues -- such as the charity's national origins -- can be helpful. Though certainly not fool-proof, another possible starting point for identifying unscrupulous charities is to search for those that are issues-based, rather than more general, charitable organizations. For example, a group whose ideological purpose is to donate monies to the plight of the Palestinian people is far more likely to funnel money to Hamas, simply on the strength of its more intimate relationship with the region and groups involved with the same issue, than a group with a more global focus -- such as the Islamic Circle of North America, which has provided relief to people in Sudan, Bangladesh, Ethiopia and to victims of Hurricane Francis. That is not to say that issues-based groups are corrupt and general charities are not, but it is one possible indicator that law enforcement agencies can monitor.<sup>13</sup>

Accountants and financial investigators also can watch for anomalies. For instance, if an issue-specific charity donates a disproportionate amount to a

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<sup>9</sup> Statement of David D. Aufhauser, Former U.S. Treasury Department General Counsel, before the Senate Committee on Governmental Affairs: "An Assessment of Current Efforts to Combat Terrorism Financing," June, 15 2004.

<sup>10</sup> Victor Comras, "Al Qaeda Finances and Funding to Affiliated Groups," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>11</sup> *Terrorist Financing: On Deterring Terrorist Operations in the United States* (U.S. GAO, 2005), p. 14.

<sup>12</sup> Jeremy Lippart and Karan Bokhari, "The Finances of Terrorism, Stratfor, October 22, 2004.

<sup>13</sup> Ibid.

seemingly unrelated issue or group, it likely would raise red flags for an investigator. Other anomalies in giving patterns could include new areas of concern for a general-purpose charity, signs that a U.S.-based charity is ignoring local causes in favor of funding trans-national relief efforts, or an organization that is recruiting volunteers to act on its behalf outside the group's traditional -- either geographic and ideological -- area of responsibility. This method of monitoring -- recommended by the Financial Action Task Force on Money Laundering and adopted by the United Nations -- has resulted in several arrests.

Clearly, however, clues are not proof of any illegal behavior. When it comes to charities suspected of terrorist involvement, at what point can a series of independent actions be said to indicate coordinated and malevolent intent? And if they do in fact indicate such intent, what should be done about it? In all cases, further investigation would be needed in order to support the case for an arrest warrant or subpoena that eventually could be used to put the charity out of business.

As a way of organization, the main sources of terrorist funding are outlined in Figure 1. Here charities are assumed to play a key role, with funds also derived from legitimate businesses and fraudulent/criminal activities. The following cases illustrate the varying ways that Islamic charities have been exploited by terrorist groups.<sup>14</sup>

### **Examples of Terrorist Exploitations of Charities—Al-Qaeda-Type**

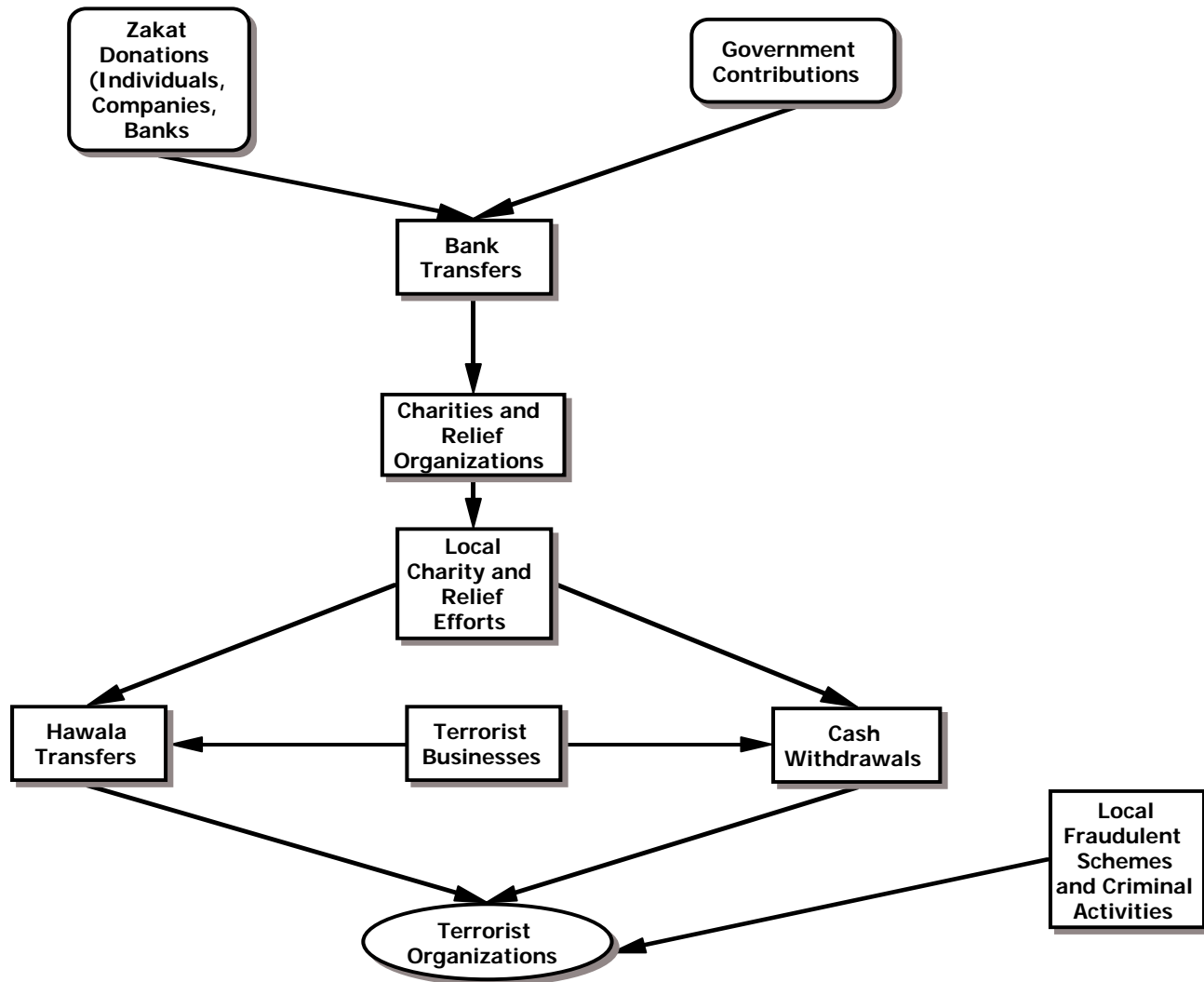
As noted above there are fundamental differences between the manner in which Hamas and Hizballah exploit charities and the methods used by Al-Qaeda. Many of the charitable and service organizations serving as fronts for al Qaeda grew out of the network of organizations established in the 1980s to provide funding, materiel, recruits and more to the mujahideen fighting the Soviets in Afghanistan.

Although most of these charities perform the humanitarian tasks for which they were originally created, a significant amount of money has been diverted, directly or indirectly to fund terrorism. In fact, the 9/11 Commission pointed to a core number of financial facilitators involved in raising, moving and storing the money al Qaeda has needed for its maintenance, logistical and operational requirements. They raised funds from donors primarily in the Gulf region, but also from other countries around the world. Using bogus and legitimate charities and businesses as covers, they enabled al Qaeda to develop a substantial financial network in Southeast Asia, Europe, Africa and Asia.

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<sup>14</sup> These cases are taken from the U.S. Treasury's List of Charities Designated Under Executive Order 13224 and can be found at: [http://www.treas.gov/offices/enforcement/key-issues/protecting/charities\\_execorder\\_13224-a.shtml#a](http://www.treas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml#a)

**Figure 1**  
**Summary: Charities and the Terrorist Money Trail**



Al Qaeda has taken full advantage of the lack of oversight noted above to open its own front charities and to solicit funds through collection boxes at mosques and Islamic centers. It has also placed operatives in key positions within established charities to do its bidding. Funds raised for or allocated by al Qaeda are co-mingled, maintained, and transferred with funds designated for legitimate relief and developmental activities. Their ultimate use to support



al Qaeda becomes known only once the monies are transferred or diverted to al Qaeda-related recipients.<sup>15</sup>

Terrorist exploitation of such charities is of particular concern because, as one commentator observed, “The operation under tax-exempt status in the United States of organizations that actively fund terrorist activities abroad, has meant that the U.S. government, and all U.S. tax payers, indirectly finance terrorists and terrorist organizations.”<sup>16</sup>

#### *Al Akhtar Trust*

Al Akhtar Trust is a Pakistani based charity known to have provided support to al-Qaeda fighters in Afghanistan. Al Akhtar is carrying on the activities of the previously designated Al Rashid Trust (ART). Al Rashid was established as a welfare organization in Karachi in February 1996 by Mufti Muhammad Rashid. ART actively promoted jihad. “The holy war is an essential element of Islam,” wrote Muhammad Rashid. “Any Moslem must carry weapons, even in the mosque, if the need would be felt to make fire on a not-Moslem.”<sup>17</sup>

Rashid and his organization<sup>18</sup> had close ties to the Taliban, to Osama bin Laden, and to al-Qaeda, as well as to other Islamist organizations in Pakistan. The charity ran many madrasas and mosques in both Afghanistan and Pakistan – all used to recruit jihadis. ART not only had established networks of hospitals and clinics to treat wounded terrorists, but also provided financial and legal support to jailed Islamists around the world. On the other hand, ART also operated a network of bakeries (with an annual budget estimated at \$4 million) that provided the organization with further income, employment for the locals, and bread for the poor.

While our data on ART is quite sketchy Pakistani sources claim that in 2000, the Trust sent \$750,000 in cash to Islamists in Chechnya, \$36,000 to Islamists in Kosovo, and \$34,482 to the Taliban. In addition, ART was reported to support Islamist terrorism in Kashmir, India and Central Asia.

Moreover, the organization shipped at least U.S.\$1 million worth of goods, food, medicine and other relief items into Afghanistan on a weekly

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<sup>15</sup> Victor Comras, “Al Qaeda Finances and Funding to Affiliated Groups,” in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>16</sup> Quoted in Todd M. Hinnen, “The Cyber-Front in the War on Terrorism: Curbing Terrorist Use of the Internet,” *The Columbia Science and Technology Law Review* V (2004), p.18.

<sup>17</sup> Muhammad Rashid, translated in “Al Rashid Trust,” South Asia Terrorism Portal, [www.satp.org](http://www.satp.org)

<sup>18</sup> The following draws on Rachel Ehrenfeld, *Funding Evil* (Chicago: Bonus Books, 2003), pp. 43-44.

basis and sent more than 70 truckloads of relief goods up to November 2001. These truckloads turned out also to have been used for smuggling heavy weapons and ammunition—disguised as food relief—to the Taliban and al-Qaeda. In December 2002 Pakistani intelligence sources were quoted as saying, “It’s nonsense to believe this has stopped.”<sup>19</sup>

ART’s successor, Al Akhtar, is suspected of raising money for jihad in Iraq as well as having ties to the individuals responsible for the kidnapping and murder of Wall Street Journal Reporter Daniel Pearl. The Trust has provided financial and logistical support as well as arranging travel for Islamic extremists.<sup>20</sup>

*Al Haramain Foundation (AHF)*

Al Haramain, a Saudi Arabia-based nonprofit organization established in the early 1990, has been described as the “United Way” of Saudi Arabia. It exists to promote Wahhabi Islam by funding religious education, mosques, and humanitarian projects worldwide. At its peak, al Haramain had a presence in at least 50 countries. Estimates of its budget range from \$30 to \$80 million.<sup>21</sup>

When viewed as a single entity, AHF is one of the principal Islamic NGOs providing support for the al Qaida network and promoting militant Islamic doctrine worldwide. Terrorist organizations designated by the U.S. including Jemmah Islamiya, Al-Ittihad Al-Islamiya, Egyptian Islamic Jihad, HAMAS and Lashkar E-Taibah received funding from AHF and used AHF as a front for fundraising and operational activities.

On March 11, 2002 the U.S. and Saudi Arabia jointly designated the Bosnia and Herzegovina and Somalia offices of Haramain as al Qaeda funding sources. Al Haramain Somalia had funneled money to Al-Ittihad al-Islami, a designated terrorist group, by disguising the funds as contributions for an orphanage project, an Islamic school, and mosque construction.<sup>22</sup>

Following the September 11, 2001 terrorist attacks, AHF activities supporting terrorism in Afghanistan continued. In 2002, activities included involvement with a group trained to attack foreigners in Afghanistan. A journalist suspected of meeting with al Qaida and Taliban members in Afghanistan was reportedly transferring funds on behalf of the al Qaida-

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<sup>19</sup> Ehrenfeld, op. cit., p. 44.

<sup>20</sup> U.S. Treasury, Office of Public Affairs, “U.S. Designates Al Akhtar Trust: Pakistani Based Charity is Suspected of Raising Money for Terrorists in Iraq,” October 14, 2003. <http://www.treas.gov/press/releases/js899.htm>

<sup>21</sup> John Roth, Douglas Greenburg and Serena Wille, National Commission on Terrorist Attacks Upon the United States, Monograph on Terrorist Financing, Staff Report of the Commission. 2005, p. 114,

<sup>22</sup> <sup>22</sup> See United Nations Press Release SC/7331, dated March 15, 2002.

affiliated AHF and forwarding videotapes from al Qaida leaders to an Arabic language TV network for broadcast.

In late 2004 the Saudi government dissolved the Al Haramain Foundation. U.S. investigators had linked a former Al Haramain employee to the 1998 U.S. embassy bombing in Tanzania. Since March 2002 the United States and Saudi Arabia had jointly designated 11 overseas branches of Al Haramain as front organizations for terrorist activities. Saudi officials indicate that Al Haramain's international operations will be absorbed by the new Nongovernmental Commission for Relief and Charity Work Abroad.<sup>23</sup>

#### *The Muslim World League (MLW)*

As noted above, the Muslim World League<sup>24</sup> was founded by, and is completely funded by the Saudi government. Since its inception in 1962, it has expanded into at least one hundred branches in more than thirty countries. Its branch in Herndon, Virginia was raided in March 2002 and closed by federal authorities. Ironically Saleh al-Obaid, former head of the MLW and a hardcore Wahhabi was recently made education minister in Saudi Arabia.<sup>25</sup>

MWL is also the main body for other Saudi charities such as IIRO, Rabita Trust, and the SAAR Foundation Network. It is supported by the Saudi government money and by the al-Rajhi and the bin Mahfouz families' global financial and business empires. Saudi public and private support for MLW has been estimated at over \$75 billion during the last four decades.<sup>26</sup>

The Pakistani branch of the MWL was created to support al-Qaeda. It was funded initially by Osama bin Laden, and later by the Saudi government. MWL's chief officers in Pakistan have had close ties to Osama bin Laden, and have supported some of al-Qaeda's operations, including attempts to obtain nuclear materials.

#### *Benevolence International Foundation (BIF)*

The Benevolence International Foundation is another Saudi umbrella charity organization that helps fund al Qaeda. Benevolence was established in the late 1980s as two separate organizations. The Islamic Benevolence Committee, was a charity based in Peshawar, Pakistan, and Jeddah, Saudi Arabia. Its sister organization, Benevolence International Corporation, was set

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<sup>23</sup> Alfred B Prados and Christopher Blanchard, Saudi Arabia: Terrorist Financing Issues (Washington: Congressional Research Service, March 1, 2005), pp. 18-19.

<sup>24</sup> The following draws on Ehrenfeld, op. cit., p. 38.

<sup>25</sup> Oliver Guitta, "A Nation at Risk," The Weekly Standard 10:27 (April 4, 2005), pp. 17-18.

<sup>26</sup> See statement of David D. Aufhauser, Former U.S. Treasury Department General Council, before the Senate Committee on Governmental Affairs: "An Assessment of Current Efforts to Combat Terrorism Financing," June 15, 2004.

up as an import/export business in the Philippines. Both organizations were engaged in fund-raising efforts for the mujahideen in Afghanistan, but they appeared to work separately until the early 1990s. In 1992 they became the Benevolence International Foundation and opened new branches throughout Southeast Asia, Europe, and America.

Benevolence International Foundation (BIF-USA), incorporated in the State of Illinois in 1992, was a U.S., tax-exempt, not-for-profit organization whose stated purpose was to conduct humanitarian relief projects throughout the world. The organization has been linked to efforts to purchase rockets, mortars, rifles, and offensive and defensive bombs, and to distribute them to various mujahideen camps, including camps operated by al Qaida.

BIF also provided additional support for and has been linked in other ways to al Qaida and its operatives. First, BIF lent direct logistical support in 1998 to Mamdouh Mahmud Salim, a bin Laden lieutenant present at the founding of al Qaida. Salim has been indicted for conspiring to kill U.S. nationals. Testimony at the 2001 trial of United States v. Bin Laden, et al, implicated Salim in efforts to develop chemical weapons on behalf of al Qaida in the 1990s. As early as 1992, Salim and bin Laden made efforts to develop conventional weapons and to obtain nuclear weapons components.

The case against BIF is particularly noteworthy because it uncovered the illegal and yet virtually undetectable ability of Al Qaeda to pull funds from its charities. Funds would be allocated, and accounted for, by the charity for community development and charitable activities. Once the full amount was pulled out for the charitable project, a small percentage (around 10%) of the cash was skimmed off the top and physically passed on to an Al Qaeda operative who deposited this clean money into Al Qaeda accounts in the Middle East or dispersed into operational cells in other parts where Al Qaeda operates such as Bosnia.<sup>27</sup> Mechanisms such as this skimming operation are especially beneficial to Al Qaeda and other terrorist organizations because the money that is received from charities is clean money, and unlike illicit financing sources does not need to be laundered.

#### *The Qatar Charitable Society (QCS)*

The Qatar Charitable Society (QCS) illustrates how a terrorist organization can infiltrate a legitimate charity and exploit its funding base. At the trial of the conspirators who planned the bombings of the U.S. Embassies in Kenya and Tanzania, a former Al Qaeda member and QCS employee

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<sup>27</sup> "Government's Evidentiary Proffer Supporting the Admissibility of Co-Conspirator Statements," pp. 65-74.

identified QCS as an Al-Qaeda front and financial conduit for militant jihadists world-wide.<sup>28</sup>

QCS's mission statement on its website did not foreshadow such involvement: "QCS aims to offer relief to help to orphans, victims of war and disasters by supporting them financially, socially and culturally up to the age of 18. QCS aids widows to meet living expenses particularly those who lost all relatives and friends."<sup>29</sup> QCS draws much of its funding from official sources, including the Qatari government.

QCS's activity in the Southern Caucasus illustrates the manner in which the charity has aided terrorist causes. In 1995 a QCS office in Daghestan dispensed 3 million Qatari Rials in less than two years. Daghestani state police initiated an inquiry into the organization, and uncovered forged documents and invoices detailing hundreds of thousands of dollars of illicit financial transactions. From the evidence they collected, investigators estimated that QCS had given up to \$1 million to unspecified Chechen extremists. Russian authorities found most of the charitable contributions were not recorded anywhere. The same goes for how the money was distributed.

By liquidating charity bank accounts into untraceable cash withdrawals in war-torn states (often with no reliable banking systems), QCS was able to make this money simply disappear. When questioned on this the Qatari Foreign Minister's reply illustrates why charities are often sought out by terrorist groups:<sup>30</sup>

We as a government cannot control the aid going abroad, some of which may go for humanitarian goals, and some may start out humanitarian but end up in another way. However there is no monitoring because people are sympathizing.... We as a government may be able to control our sympathy, although in the end we are human beings and Muslims .... therefore we cannot restrain the people's feelings in this regard.

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<sup>28</sup> See Fund-Raising Methods and Procedures for International Terrorist Organizations, Hearing Before the House Committee on Financial Services Subcommittee on Oversight and Investigations, Feb12, 2002 (Testimony of Steven Emerson quoting Transcript of Trial Testimony, Jamal Ahmed Al-Fadl, United States v. Bin Laden, 329-30 (February 6, 2001)), available at <http://financialservices.house.gov/media/pdf/02102se.pdf>.

<sup>29</sup> QCharity at [www.qcharity.org/qenglish/index.html](http://www.qcharity.org/qenglish/index.html)

<sup>30</sup> Quote from Steven Emerson and Jonathan Levin Before the United States Senate Committee on Governmental Affairs, "Terrorism Financing: Origination, Organization and Prevention: Saudi Arabia, Terrorist Financing and the War on Terror," July 31, 2003, p.

*Global Relief Foundation (GRF)*

The Global Relief Foundation (GRF) is another charity with links to al Qaida, and other known terrorist groups. In addition, GRF provided financial and other assistance to, and received funding from, individuals associated with al Qaida, including Mohammed Galeb Kalaje Zouaydi. Zouaydi is a suspected financier of al Qaida's worldwide terrorist efforts and was arrested in Europe in April 2002. Spain's Interior Ministry has described transfers totaling about \$600,000 from Zouaydi and his partners to al Qaida-related organizations, including GRF.

GRF has admitted receiving funds from Zouaydi, including over \$200,000 to Nabil Sayadi, Head of FSM, GRF's Belgium office. GRF and FSM personnel had multiple contacts with Wadih El-Hage, bin Laden's personal secretary when bin Laden was in Sudan. El-Hage was convicted in a U.S. district court in May 2001 for participating in a conspiracy to kill United States nationals, which conspiracy included, among other acts, the 1998 bombings of the U.S. Embassies in Kenya and Tanzania.

GRF has published several Arabic newsletters and pamphlets that advocated armed action through jihad against groups perceived to be un-Islamic. A GRF newsletter requested donations "for equipping the raiders, for the purchase of ammunition and food, and for their [the Mujahideen's] transportation so that they can raise God the Almighty's word . . ." GRF also received \$18,521 from the Holy Land Foundation for Relief and Development (HLF) in 2000. HLF, a Dallas, Texas based Islamic charitable organization, was designated under E.O. 13224 on December 4, 2001, and under the European Union's Regulation (EC) No. 2580/2001 on June 17, 2002, for its ties to terrorism.

*The International Islamic Relief Organization (IIRO)*

The International Islamic Relief Organization (IIRO) is another Wahhabi sponsored charity<sup>31</sup>. Established in 1978, it has branch offices throughout the world, including 36 in Africa, 24 in Asia, 10 in Europe and 10 in Latin America, the Caribbean, and North America. The bulk of its financial contributions come from private donations in Saudi Arabia, including a long-standing endowment fund (Sanabil al-Khair) which generates a stable income for its various activities. The IIRO continues to be closely associated with the Muslim World League. Prominent Middle East figures and financiers have supported this mainstream Islamic charity.<sup>32</sup>

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<sup>31</sup> The following draws on Comaras, op. cit.

<sup>32</sup> Second Report of the Monitoring Group Established Pursuant to United Nations Security Council Resolution 1363 (2001) and extended by resolutions 1390 (2002) and 1455 (2003) on sanctions against al Qaeda, S/2003/1070 dated 3 December 2003, paragraphs 40 – 43.

According to a CIA report, funds raised through the International Islamic Relief Organization were used to support at least six al Qaeda training camps in Afghanistan prior to 9/11.<sup>33</sup> Evidence produced in Canadian court proceedings linked the IIRO directly to groups responsible for the 1998 bombings of the American embassies in Dar es Salaam and Nairobi.<sup>34</sup> The former head of the IIRO office in the Philippines, Muhammad Jamal Khalifa, was also accused of links to al Qaeda and terrorist activities.<sup>35</sup>

At one point the IIRO used more than 70 percent of its funds to purchase weapons, thereby securing its status as a front for al-Qaeda's illegal activities (the rest of the funds were used for legitimate public works). The IIRO has also directly funded the Egyptian branch of al-Qaeda. In addition the IIRO has been identified as a conspirator in:<sup>36</sup>

- The 1993 World Trade Center bombing.
- Plots to destroy the bridges and tunnels of New York City.
- An attempt to blow up twelve American airlines simultaneously.

The IIR was also involved in a conspiracy to assassinate former president Clinton and Pope John Paul II.<sup>37</sup>

IIRO's current Secretary General, Dr. Adnan Khaleel Pasha, has sought to clean house and steer clear of any links to al Qaeda. Under his direction, however, the IIRO continues to provide direct support to Hamas activists.<sup>38</sup>

#### The Rabita Trust

The Rabita Trust<sup>39</sup>, begun in Pakistan in 1988, ostensibly worked to repatriate and rehabilitate stranded Pakistanis from Bangladesh. Its stated aims were to disseminate Dawah (culture), to expound the teachings of Islam, "and to 'defend' Islamic causes in a manner that safeguards the interests and aspirations of Muslims, solves their problems, refutes false allegations against Islam, and repels inimical trends and dogma which the enemies of Islam seek to

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<sup>33</sup> This CIA report was released under a Freedom of Information request. Extracts from the text of the report are available on the internet at [www.centerforsecuritypolicy.org/cia96charities.pdf](http://www.centerforsecuritypolicy.org/cia96charities.pdf)

<sup>34</sup> See Minister of Citizenship and Immigration v. Mahmoud Jaballah, Federal Court of Canada, Docket DES-6-99, November 2, 1999.

<sup>35</sup> See Philippine Country Report, UN Security Council Resolution 1267 and 1455, al Qaeda Sanctions Committee, October, 2004, S/AC.37/2003/(1455)/79, October 22, 2003.

<sup>36</sup> Ehrenfeld, op. cit., p. 34.

<sup>37</sup> Ibid.

<sup>38</sup> See "Saudi Royal Family's Financial Support to the Palestinians, 1998-2003: More than 15 billion Rials (\$4 Billion U.S. ) Given to 'Mujahideen Fighters' and 'Families of Martyrs' by Steven Stalinsky, MEMRI Special Report 17, July 3, 2003.

<sup>39</sup> The following draws on Comras, op. cit.

exploit in order to destroy the unity of Muslims and to sow seeds of doubt in the Muslim brethren.”<sup>40</sup>

Members of the trust included both Pakistani and Saudi, including Pakistan’s Ministers of Finance and Interior, Saudi Prince Talal ibn Abdul Aziz, Secretary Generals of the Muslim World League and the International Islamic Relief Organization, and President of the Council of Saudi Chamber of Commerce. Most of its funding was secured from Saudi businessmen. Funds from the trust reportedly were used for a number of al Qaeda related activities, including recruitment and training in Afghanistan, Pakistan and elsewhere.<sup>41</sup>

#### Saudi High Commission (SHC)

Another Saudi charity is the Saudi High Commission, AKA the Saudi High Relief Commission, which was founded by King Fahd’s son Prince Salman bin Abd al-Aziz al-Saud in 1993.<sup>42</sup> The exact amount of money the SHC has raised is unknown. What is known is that money the SHC claimed it sent to aid needy Muslims never reached them – not the \$200 million that was sent to Bosnia-Herzegovina for the Muslims of Srebrenica in July 1995 , and not the \$600 million that was sent to help rebuild the battered region following its civil war.

When NATO forces raided the SHC offices in Sarajevo, they found a computer hard drive containing photographs of: the World Trade Center before and after the September 11 attack; the U.S. embassies in Kenya and Tanzania; and the USS Cole—as well as photographs and maps of Washington, D.C., with government buildings marked. NATO forces also found:<sup>43</sup>

- Information about the use of pesticides and crop dusters to disperse chemical weapons and biological agents.
- Instructions on how to forge State Department IDs.
- Anti-Semitic and anti-U.S. propaganda designed for children.
- Close to \$210,000 worth of local currency.
- Twenty-four vehicles with diplomatic plates that had been used to smuggle people and materiel into Bosnia-Herzegovina

The NATO forces also found that the SHC branch in Sarajevo was employing an al-Qaeda operative, Sabir Lamar. He and five other operatives

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<sup>40</sup> See South Asia Terrorism Portal at

[www.satp.org/satporgtp/countries/pakistan/terrorstoutfits/Rabita\\_trust.htm](http://www.satp.org/satporgtp/countries/pakistan/terrorstoutfits/Rabita_trust.htm).

<sup>41</sup> See US Treasury Press Release PO-3397 dated September 6, 2002, Treasury Department Statement on the Designation of Wa’el Hamza Julidan.

<sup>42</sup> The following draws on Ehrenfeld, pp. 42-43.

<sup>43</sup> Matthew Levitt, “The Political Economy of Middle East Terrorism,” Middle East Review of International Affairs 6:4 (December 2002).



from Algeria had been involved in a plot to attack the U.S. and U.K. embassies in Bosnia-Herzegovina.

A subsequent audit of the SHC's Sarajevo office by the financial police of the Federation of Bosnia-Herzegovina Ministry of Finance revealed that its founder, Prince Salman, had "knowingly failed to take appropriate actions regarding the management and use of funds of the SHC in Bosnia Herzegovina." In addition, the investigation found that the SHC failed to account for \$41 million that was missing from the SHC operating funds.<sup>44</sup>

These are but a few of the charities that al Qaeda has used to support indoctrination, recruitment, training efforts, logistical maintenance, and terrorist activities. The current status of many of these charities is unclear. Some of them remain in operation. The International Islamic Relief Organization has new top leadership in Saudi Arabia, but many of its local chapters retain their past management and structure. Likewise branches of al Haramian, despite closing orders from Saudi Arabia, continue to be active in many countries, including Somalia and Indonesia. Other closed charities have merely reopened under new names.<sup>45</sup>

Many of the charities that have been designated are deeply embedded in the social and humanitarian fabric of the communities they serve.<sup>46</sup> They provide critical services that are not easily replaced.<sup>47</sup> In some cases, the charities, as well as their sponsors, may be innocent of any wrongdoing; they may simply have been victims of infiltration and abuse.<sup>48</sup> In others, however, the charities only functioned as fronts to hide terrorism related financing.<sup>49</sup>

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<sup>44</sup> Ehrenfeld, op. cit., p. 43.

<sup>45</sup> Comras, op. cit.

<sup>46</sup> Comras, op. cit.

<sup>47</sup> One example is Lajnat al Daawa Al Islamiya (LDI), a Kuwait charity active in Pakistan and Afghanistan. Although it had been linked with al Qaeda, its activities were considered critical to ongoing Afghan relief activities. The charity ran five medical clinics, three Islamic schools, and an orphanage in different parts of Pakistan. At the time, the UN Special Representative to the Secretary General for Afghanistan, Lakhdar Brahmi, indicated that, given the important role that LDI has played in Afghan relief activities, some consideration should be taken to de-listing this charity. While Lajnat al Daawa Al Islamiya (LDI) remains on the UN designated list, it is still believed to be active in Kuwait, Pakistan and Afghanistan. See Second Report of the Monitoring Group Established Pursuant to United Nations Security Council Resolution 1363 (2001) and extended by resolutions 1390 (2002) and 1455 (2003) on sanctions against Al Qaeda, S/2003/1070 dated 3 December 2003, paragraph 58.

<sup>48</sup> Field auditing of charities in conflict zones is particularly difficult. There are several reports of funds being diverted in the field from the intended purpose. However, it is difficult to determine the extent to which such diversions were hidden from senior charity officials.

<sup>49</sup> Kenneth Dam, in his testimony on The Role of Charities and Non Profit Organizations in the Financing of Terrorism before the Senate Subcommittee On International Trade and Finance, August 1, 2002, listed several charities formed with the principal intention of raising funds for al Qaeda. Two examples he cited were the Afghan Support Committee, and The Revival of

Some of these charities' defenders argue that support for the teaching and preaching of radical Islamic theology or jihadism is not enough to link them to terrorism.<sup>50</sup> It is difficult to establish the necessary evidence to support criminal action against them. Nevertheless, the importance that several Islamic-based charities play in the overall framework of terrorism financing and support provides the imperative that they be closely scrutinized and held accountable.<sup>51</sup>

### *Charity-Business Linkages*

There is an interesting nexus between businesses and the charities they have used. These charities provide al Qaeda's deep-pocket-donors deniability, protecting them from charges of knowingly financing terrorist organizations. The charities also provide an ideal conduit to mask the transfer of funds to al Qaeda. On the other hand it is not uncommon for large and small Islamic charities alike to own and control their own businesses in order to use these unregulated funds as they please. These businesses may have also been used to fund al Qaeda through their own charities<sup>52</sup>.

Several charity/business networks were identified in the course of post-9/11 investigation and enforcement efforts.<sup>53</sup> Operation Green Quest uncovered such links in its investigation of Yassin al Qadi and his involvement with BMI, the Arabic Beit ul Mal, or House of Finance. Green Quest established that there were links between BMI and an Islamic charity called Mercy International. Mercy, in turn, was tied in with al Taqwa and was implicated in several al Qaeda operations, including the bombing of American embassies in Kenya and Tanzania.<sup>54</sup>

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Islamic Heritage Society. Both defrauded donors by falsely publicizing the organizations actual activities.

<sup>50</sup> See Testimony of Dr. Quintan Wiktorowicz, Rhodes College on The Role of Charities and Non Profit Organizations in the Financing of Terrorism before the Senate Subcommittee On International Trade and Finance, August 1, 2002.

<sup>51</sup> The 9/11 Commission Staff Monograph on Terrorism Financing addresses some of the dilemmas associated with closing down charities and freezing their assets in its discussion of the Illinois Charity Cases. See The 9/11 Commission Report and National Commission on Terrorist Attacks Upon the United States, Monograph on Terrorist Financing, 87 – 113.

<sup>52</sup> Victor Comras, "Al Qaeda Finances and Funding to Affiliated Groups," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>53</sup> Ibid.

<sup>54</sup> "At the New York trial of four men convicted of involvement in the embassy attacks, a former al-Qaeda member named several charities as fronts for the terrorist group, including Mercy. Documents presented at the trial demonstrated that Mercy smuggled weapons from Somalia into Kenya, and Abdullah Mohammad, one of the Nairobi bombers, delivered eight boxes of convicted al-Qaeda operative Wadi el-Hage's belongings—including false documents and passports—to Mercy's Kenya office." Matthew A. Levitt, Hearings on "The Role of Charities and NGOs in the Financing of Terrorist Activities, House Subcommittee on International Trade and Finance, August 1, 2002.

An investigation into the activities of a number of Saudi and other Middle Eastern businessmen working out of Herndon, Virginia unveiled a network of some 100 intertwined companies and charities funding al Qaeda and other terrorist groups.<sup>55</sup> These included Islamic educational, cultural and charitable organizations, as well as for-profit business and investment firms. Most of the educational and charitable organizations were “paper” organizations, all registered at a common address, but having no apparent physical structure. This network became known as the Safa Group<sup>56</sup>.

In the United States, the Safa Group was closely associated with the SAAR Foundation, a charity funded by Saudi billionaire Salaeh Abdul Aziz-al Rajhi with branches in both Canada and the United States. Evidence showed that the Safa Group, using the various affiliated charities and companies under its control, transferred money in convoluted transactions designed to prevent investigators from tracking the ultimate recipients. Obtained evidence suggested that these recipients included al Qaeda, Hamas and other associated terrorist groups.<sup>57</sup>

### **Examples of Terrorist Exploitations of Charities—Hamas-Type**

Hamas<sup>58</sup> raises tens of millions of dollars per year throughout the world using charitable fundraising as cover. While Hamas may provide money for legitimate charitable work, this work is a primary recruiting tool for the organization's militant causes. Hamas relies on donations from Palestinian expatriates around the world and private benefactors located in moderate Arab states, Western Europe and North America. Hamas uses a web of charities to facilitate funding and to funnel money. Charitable donations to non-governmental organizations are commingled, moved between charities in ways that hide the money trail, and are then often diverted or siphoned to support terrorism.

The political leadership of Hamas directs its terrorist networks just as they oversee their other activities. Hamas leader Yassin confirms this relationship, stating to al-Sharq al-Awsat on August 12, 2002: “When we make decisions on the political level and convey them to the military wing, it abides

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<sup>55</sup> Victor Comras, “Al Qaeda Finances and Funding to Affiliated Groups,” in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>56</sup> See Affidavit of David Kane re In The Matter of Searches Involving 555 Grove Street, Herndon, Virginia and Related Locations, US District Court for the Eastern District of Virginia, Alexandria Division, October (2003).

<sup>57</sup> Ibid.

<sup>58</sup> This section draws heavily on: Quotes from U.S. Treasury, “Protecting Charitable Organizations: Additional Background Information on Charities Designated Under Executive Order 13224. [http://www.treas.gov/offices/enforcement/key-issues/protecting/charities\\_execorder\\_13224-a.shtml](http://www.treas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml)

by it normally.” The intensity of this relationship is reflected in Yassin's words quoted by Reuters on May 12, 1998: “We can not separate the wing from the body. If we do so, the body will not be able to fly. Hamas is one body.”<sup>59</sup>

Fundraising may involve community solicitation in the United States, Canada, Europe and the Middle East or solicitations directly to wealthy donors. While some donors may be aware of the intended use of their donations, too many innocent donors who intend for their money to be used to provide humanitarian services here or abroad, are unwittingly funding acts of violence when these funds are diverted to terrorist causes. The following cases illustrate some of the techniques used by Hamas’ main charities.<sup>60</sup>

#### *Al Aqsa Foundation*

Al Aqsa is a critical part of Hamas' terrorist support infrastructure. Through its headquarters in Germany and branch offices in the Netherlands, Denmark, Belgium, Sweden, Pakistan, South Africa, Yemen and elsewhere, Al Aqsa funnels money collected for charitable purposes to Hamas terrorists. Ali Muqbil, the General Manager of the AL-Aqsa Foundation in Yemen and a Hamas official, transferred funds to Hamas, PIJ or other Palestinian organizations assisting "Palestinian fighters." The disbursements were recorded as contributions for charitable projects. Through channels such as this, AL-MUAYAD reportedly provided more than U.S. \$3 million to the "Palestinian cause".<sup>61</sup> The organization has also allegedly provided money, arms, recruits and communication equipment for Al-Qaida.

#### *The “Martyr’s Organization” (Bonyad-e Shahid)*

The “Martyr’s Organization” (Bonyad-e Shahid)<sup>62</sup> admittedly supplies charitable funds for the families of suicide bombers. In 2001, Paraguayan police searched the home of Hezbollah operative Sobhi Mahmoud Fayad in the the Tri-Border Area where Brazil, Argentina, and Paraguay meet. Searching Fayad’s home, police found receipts from the Martyr’s Organization totaling

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<sup>59</sup> Quotes from U.S. Treasury, “Protecting Charitable Organizations: Additional Background Information on Charities Designated Under Executive Order 13224.” [http://www.treas.gov/offices/enforcement/key-issues/protecting/charities\\_execorder\\_13224-a.shtml](http://www.treas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml)

<sup>60</sup> The following section draws on Matthew Levitt, “Hezbollah Finances: Financing the Party of God,” in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>61</sup> U.S. Treasury “U.S. Freezes Assets of Al-Aqsa, Citing Terror Links,” May 29, 2003. <http://usinfo.state.gov/ei/Archive/2004/Jan/07-474588.html>

<sup>62</sup> The following section draws on Matthew Levitt, “Hezbollah Finances: Financing the Party of God,” in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

more than \$3.5 million for donations Fayad sent.<sup>63</sup> Authorities believed Fayad had sent over \$50 million to Hezbollah since 1995.

*The Holy Land Foundation for Relief and Development (HLF)*

The Holy Land Foundation for Relief and Development (HLF) was designated under Executive Orders 13224 and 12947 as a charity that provided millions of dollars of material and logistical support to Hamas. HLF, originally known as the Occupied Land Fund, was established in California in 1989 as a tax-exempt charity. In 1992, HLF relocated to Richardson, Texas. It had offices in California, New Jersey, and Illinois, and individual representatives scattered throughout the United States, the West Bank, and Gaza.

In the year 2000 alone, HLF raised over \$13 million. HLF supported Hamas activities through direct fund transfers to its offices in the West Bank and Gaza that are affiliated with Hamas and transfers of funds to Islamic charity committees ("zakat committees") and other charitable organizations that are part of Hamas or controlled by Hamas members. Mousa Mohamed Abu Marzook, a political leader of Hamas, provided substantial funds to the Holy Land Foundation in the early 1990s. In 1994, Marzook (who was named a Specially Designated Terrorist by the Treasury Department in 1995) designated HLF as the primary fund-raising entity for Hamas in the United States. HLF funds were used by Hamas to support schools that served Hamas ends by encouraging children to become suicide bombers and to recruit suicide bombers by offering support to their families. HLF and several of its directors were indicted on criminal charges in July 2004.

*Interpal/The Palestinian Relief and Development Fund*

Interpal, headquartered in the UK, has been a principal charity utilized to hide the flow of money to Hamas. Reporting indicates it is the conduit through which money flows to Hamas from other charities, e.g., the Al Aqsa Foundation, and that it oversees the activities of other charities. For example, the Sanabil Association for Relief and Development represents Interpal in Lebanon. Interpal is the fundraising coordinator of Hamas, a coordination point for other Hamas-affiliated charities. This role is of the type that includes supervising activities of charities, developing new charities in targeted areas, instructing how funds should be transferred from one charity to another, and even determining public relations policy.

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<sup>63</sup> Mark S. Steinitz, "Middle East Terrorist Activity in Latin America," Policy Papers on the Americas, Vol. XIV, Study 7, Center for Strategic and International Studies, July 2003.

*Other Charities Providing Support to Hamas*

According to a declassified research report<sup>64</sup> based on Israeli intelligence, Hezbollah also receives funds from charities that are not directly tied to it but are radical Islamist organizations that donate to it out of ideological affinity. "Besides operating a worldwide network of fundraisers, funds are also raised through so-called 'charity funds.' Some of these are extremist Islamic institutions that, while not directly connected to Hezbollah, support it, albeit marginally, in view of their radical Islamic orientation."

While some of these funds undoubtedly pay for Hezbollah's military and terrorist operations, other funds enable the group to provide its members with day jobs, to drape itself in a veil of legitimacy, and to build grassroots support among not only Shi'a, but also Sunni and Christian Lebanese. For example, Hezbollah runs the al Janoub hospital in the southern Lebanese city of Nabatiyah. It is one out of a network of some fifty hospitals the group runs throughout the country. The hospital receives \$100,000 a month from Hezbollah and is run by Ahmad Saad, the hospital director who is also a member of Hezbollah's "national health committee."<sup>65</sup>

**Assessment**

Based on the information contained in the cases noted above, together with the experience gained in monitoring Islamic charities several tentative policy conclusions can be drawn:

First, Islamic charities are very difficult to attack. As the UN Monitoring Group notes, there is a<sup>66</sup>

General reticence to act against charities, even those suspected of channeling funds to Al-Qaeda, unless strong evidence is presented and judicial findings can be obtained. This higher standard of proof has inhibited the designation of charities and their inclusion in the list . . . Even when such charities have been listed there has been an even stronger reticence to go behind the charities, to reach to their directors, donors and fund-raisers.

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<sup>64</sup> Cited by Matthew Levitt. The following section draws heavily on Matthew Levitt, "Hezbollah Finances: Financing the Party of God," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>65</sup> Scott Wilson, "Lebanese Wary of a Rising Hezbollah," *The Washington Post*, December 20, 2004, A17.

<sup>66</sup> Second report of the Monitoring Group established pursuant to resolution 1363 (2001) and extended by resolutions 1390 (2002) and 1455 (2003), on sanctions against Al-Qaeda, the Taliban and individuals and entities associated with them S/2003/1070, 2 December 2003, 13, p. 15.

Second, the humanitarian nature of most of these charities and service organizations places their offices and employees on the ground in conflict zones of particular interest to terrorist organizations without raising undue suspicion.<sup>67</sup>

Third, charities provide an outlet not only for raising significant amounts of money, but, even more critically, are ideal vehicles for laundering and transferring those and other funds.

Fourth, charities not only serve as the perfect cover for terrorist operatives they employ, by sending the funds through recipient service organizations they offer simple and extremely secure means of laundering funds and shielding the ultimate end-users from scrutiny. For example, funds raised by Hamas and wire-transferred abroad may be traced to a specific Hamas-run charity in the West Bank or Gaza, but the cash disbursements delivered by courier to Hamas operatives are impossible to follow without extremely strong intelligence - usually of the more rare human (HUMINT) variety.<sup>68</sup>

Fifth, terrorist financial support structures are not static targets. Even when they have been included on the United Nations list, Islamic charities have adapted in a variety of ways. In some cases, the head office has closed but branch operations continue to operate unhindered. In other cases, the charities have simply re-registered and re-opened under new names but with the old infrastructure intact. Another approach has been to support terrorists less through direct contributions than through logistic support (such as employment in a charity branch office).<sup>69</sup>

In other words, the charities have displayed a degree of resilience and a capacity for adaptation, limiting thereby the ability of the international community and the United States to inhibit their continued involvement in terrorist financing. Of course, the international strategy to combat terrorist financing has had some impact. Clearly such financing is more problematic than it was, and funds from these charities are neither as plentiful nor as easily moved as in the past.<sup>70</sup>

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<sup>67</sup> Matthew Levitt, "Charitable Organizations and Terrorist Financing: A War on Terror Status-Check," March 19, 2004

<sup>68</sup> Ibid.

<sup>69</sup> See Matthew Levitt, "Charitable Organizations and Terrorist Financing: A War on Terror Status-Check" Draft Paper Presented at the University of Pittsburgh Workshop on the Dimensions of Terrorist Financing, March 19-20, 2004.

<sup>70</sup> Phil Williams, "Warning Indicators and Terrorist Finances," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

Unfortunately, terrorist organizations themselves have also compensated with their own form of adaptability and emergent behavior. They have appropriated the practices of organized crime and used these new sources of funding to make up the shortfalls in funding from the charities. Kidnapping, extortion, drug trafficking, other forms of smuggling, credit card theft and fraud, document fraud, and robbery have thus become staple features of the terrorist fund-raising repertoire.

Al-Qaeda has not doubt been the most successful of the terrorist organizations at exploiting Islamic charities and non governmental organizations. NGOs. The organization has penetrated several hundred madrassas (Islamic schools), mosques, and NGOs engaged in Islamic education, promotion of human rights, and health and relief projects. These Islamic NGOs form a visible part of a much larger invisible network. As the sections above show, the infiltration of these groups by Al-Qaeda and its associates poses both a significant threat to Islamic NGOs and at the same time one of the main challenges facing the security and intelligence community in combating terrorism. Before coming under increased scrutiny prior to 9/11, Al-Qaeda either established or infiltrated Islamic NGOs for four principal reasons:<sup>71</sup>

1. One-fifth of all NGOs conducting humanitarian work world-wide are Islamic. Such charities have established an active presence in every country in the world with a sizeable Muslim population. In addition to providing excellent cover and global reach, Islamic NGOs enable al-Qaeda to radicalize and mobilize Muslim communities to support its aims.
2. These organizations receive and disburse several billion dollars per year. According to the U.S. Embassy in Riyadh Saudi donations to Islamic NGOs for relief in Bosnia alone in 1994 amounted to 150 million dollars .Aiding Muslims in distress is a religious duty, while the idea of helping the needy and defending Muslims from perceived or actual persecution appeals to the vast majority of Muslims.
3. Most Muslims make donations on the basis that they charity of choice is funding relief, education, health or development objectives. However, an unusually high proportion of Islamic NGOs include military aid as part of a humanitarian package. The CIA estimates that one-third "support terrorist groups or employ individuals who are suspected of having terrorist connections."

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<sup>71</sup> "Al-Qaida Finances Lubricate Islamic NGOs," Oxford Analytica, January16, 2002



4. Neither the authorities nor donors are able to determine or control the ultimate beneficiaries of contributions, especially if they are overseas. For instance, Saudi Arabia monitors NGOs in the kingdom closely but the ultimate destination of the funds they raised cannot be established by the local authorities alone. However unless there is a direct and immediate threat to domestic stability or to important overseas relationships, governments are unlikely to develop a framework for closer monitoring.

Saudi Arabia, the most important home country for many of the charities suspected of enabling terrorist activity has come under considerable criticism in its attempts to control terrorist exploitation of its charities.<sup>72</sup> Assessing the Saudi situation is especially difficult because reliable figures on the amount of money originating in or passing through Saudi Arabia and ending up in terrorist hands generally are difficult to obtain for a number of reasons.<sup>73</sup>

1. Relatively small amounts of money required for terrorist acts can easily pass unnoticed.
2. The structure of the Saudi financial system makes financial transfers difficult to trace. Personal income records are not kept for tax purposes in Saudi Arabia and many citizens prefer cash transactions.
3. Contributions to the charities are often given anonymously, and donated funds may be diverted from otherwise legitimate charities.
4. Saudi funding of international Islamic charities is reportedly derived from both public and private sources which in some cases appear to overlap, further complicating efforts to estimate the amounts involved and to identify the sources and end recipients of these donations.

Like many areas and actions in the war on terror, there are positives and negatives.

The country has undertaken a number of measures to try and control such funding. The country has also taken steps to systemically protect its

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<sup>72</sup> See Panel I of the Hearing of the Senate Judiciary Committee, "Saudi Arabia: Friend or Foe in the War on Terror?" November 8, 2005.

<sup>73</sup> Alfred Prados and Christopher Blanchard, Saudi Arabia: Terrorist Financing Issues (Washington: Congressional Research Service, March 1, 2005).

charitable sector. Since May 2003, the following regulations have been put in place:<sup>74</sup>

1. Enhanced customer identification requirements apply to charitable accounts;
2. Each charity must consolidate its banking activity in one principal account;
3. No cash disbursements are permitted from charitable accounts; payments are only allowed by check payable to the first beneficiary and must be deposited in a Saudi bank;
4. No ATM or credit cards may be issued against a charitable account (all outstanding ATM and credit cards for such accounts have been canceled); and
5. No transfers from charitable accounts are permitted outside of Saudi Arabia.

In addition charities in the Kingdom cannot collect cash donations in public places.

In a related action the Saudi Arabia has implemented the 40 recommendations of the Financial Action Task Force (FATF) of the G-8 on money laundering and the 8 recommendations on terror financing. FATF conducted a mutual evaluation of the Kingdom's mechanisms in the fall of 2003 and found them in line with international standards. The country is a full member of FATF.

Finally, the Kingdom is in the process of establishing a National Commission for Charitable Activities Abroad through which all private charitable activities will take place. Until such time as this commission is established, no Saudi charity can send funds abroad.

Critics of Saudi efforts however are quick to point out that while many of these things look good on paper implementation has been a problem, as noted at a recent Senate hearing on Saudi Arabia and the War on Terror.<sup>75</sup>

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<sup>74</sup> Testimony of Daniel Glaser, Senate Judiciary Hearing, "Saudi Arabia and The War on Terror," November 8, 2005.

<sup>75</sup> See Panel I of the Hearing of the Senate Judiciary Committee, "Saudi Arabia: Friend or Foe in the War on Terror?" November 8, 2005.

There are problems still remaining, though, and one of the most important problems is that Saudi Arabia still has not created their charities commission, which they've been talking about for a while, which is supposed to bring some structure and order to the way they oversee their charities, and we're waiting for that. And I think the second and equally important issue is some of their very largest charities, the IRO and WAMY, which currently fall outside of their charitable regulations, need to be included. And I think until we see those types of reforms not only put into place but truly implemented, it will continue to be a concern of ours and something that we will continue to be pressing the Saudis on.

The fact remains that by some estimates, Saudi Arabia pumped some \$75 billion dollars into fundamentalist – Wahhabi Islam over the last 4 decades. Intended or not these funds have also provided the seed money for al Qaeda and associated jihadi cells around the world. The line from Wahhabism to Jihadism is a very thin one, and easily crossed religiously and intellectually. Alex Alexiv goes even further noting that:<sup>76</sup>

I start with the premise that without the huge amounts of Saudi money spending the past few decades, this infrastructure of Islamic extremism – and in fact, our problem with terrorism – would not be anywhere as acute as it currently is. This money is the lifeline of terrorism.

Cordesman<sup>77</sup> largely supportive of the Saudi efforts at trying to control charities still has some severe reservations over the effectiveness of the Kingdom (or other governments in the region for matter) in to significantly stopping the flow of funds from Islamic charities to terrorist organizations:

Saudi Arabia can still do more to fight terrorist financing -- although US Treasury experts have come to praise Saudi cooperation when they initially condemned it. We should understand, however, that governmental efforts to control terrorist financing have sharp limits, and have probably reached the point of diminishing returns.

Levitt states the problem for succinctly:<sup>78</sup>

Institution building aside, Saudi officials have yet to reeducate their society regarding the fact that charity supported in fulfillment of a

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<sup>76</sup> Alex Alexiv, "Saudi Arabia: Exporting Radicalism" in *Confronting Terrorism Financing* (Washington: American Foreign Policy Council, 2005), p. 38.

<sup>77</sup> Anthony Cordesman, *Saudi Arabia: Friend or Foe in the War on Terror*, "Saudi-US Relations Information Service, November 8, 2005, p.8.

<sup>78</sup> Matthew Levitt, "Charity Begins in Riyadh," *Weekly Standard*, February 2, 2004.

religious duty can be used for nefarious purposes. Nor has there been any effort to instill a sense of personal responsibility concerning where charitable donations end up.

In sum, attempts at limiting charity-based funding of terrorism has been more difficult than perhaps initially anticipated. Many charity-terrorist links have been uncovered. However many of these tainted charities remain associated with the major Islamic umbrella organizations headquartered in Saudi Arabia, such as the World Muslim League and the International Islamic Relief Organization (IIRO). These organizations have branches worldwide and continue to provide key funding for radical Islamic and jihadi teachings.

It is not uncommon for Islamic charities to run and own their own businesses. And there is almost no oversight as to how they use these funds. There is also a nexus between businesses and the charities they use to mask their terrorism related funding.<sup>79</sup>

### **Factors Affecting the Growth in Islamic Charity Funding**

In, part the adaptability of terrorist organizations in exploiting charities has been encouraged by the inability of the U.S., the European Union, and international financial institutions failure to adopt a common set of anti-terrorist polices, including similar regulatory frameworks, scope of groups targeted, and responses and penalties. No doubt this encourages jurisdiction shopping by terrorists and their financial supporters. If US counter-terrorism legislation is tougher than Europe's post 9/11, then the incentive is for groups to migrate to the less stringent jurisdiction. Similarly, the failure to achieve a common response at the global level may encourage terrorists to structure their financial support activities to exploit jurisdiction-specific advantages, such as the network of Gulf charities in the Middle East, and weak financial regulation in key states in Africa and Southeast Asia.<sup>80</sup>

As for the future, there are many variables that will determine the role and nature of Islamic charities in assisting terrorism. Clearly the manner in which terrorist organizations themselves evolve will largely define the role of Islamic charities. In this regard the 9/11 Commission notes<sup>81</sup>

Though progress apparently has been made, terrorists have shown considerable creativity in their methods of moving money. If al Qaeda is

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<sup>79</sup> Cictor Comras, Talking Paper, War on Terrorism Financing: The Counterterrorism Blog Conference, September 28, 2005.

<sup>80</sup> Jeanne K. Giraldo and Harold A. Trinkunas, "The Political Economy of Terrorist Finance and State Responses," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>81</sup> 9/11 Commission, p. 383.

replaced by smaller, decentralized terrorist groups, the premise behind the government's efforts – that terrorists need a financial support network—may be outdated. Moreover, some terrorist operations do not rely on outside sources of money and may now be self funding either through legitimate employment or low-level criminal activity.

Realistically, terrorist organizations will not be self-financing in the foreseeable future. In this case, both the supply of funds to Islamic charities and terrorist organization demand for external funding will determine the extent to which Islamic charities facilitate terrorist acts, and recruitment. The more important supply-demand elements are summarized in Figure 2.

Conceptually, one can break these factors into two components: those that result in the overall growth of Islamic charities, and a second set that affects the share of these resources diverted to terrorist activities. In actual practice this distinction may not be so sharp. In part this stems from the simple fact that Islamic charities are hardly homogenous. In many cases charities are a mere sham that exists simply to funnel money to terrorists. However, often the abuse of charity has occurred without the knowledge of donors, or even of members of the management and staff of the charity itself.

Everything else equal, the growth of charities not under the direct control of terrorists should be higher, the more wealth occurring to contributors, and the charitable needs. Those charities under control by terrorist organizations should grow more rapidly with increased difficulty of shifting funds through the conventional financial system – i.e. the success of FATIF surveillance. Within this framework, several points are of particular interest.

First, the extent to which the oil boom in the Gulf region continues will have the greatest effect on the influx of funds to Islamic charities. The U.S. Department of Energy notes<sup>82</sup> that for Saudi Arabia the combination of relatively high oil prices and exports led to a surge in oil revenues. For the year as a whole, Saudi Arabia earned about \$116 billion in net oil export revenues, up 35% from 2003 revenue levels.

Saudi net oil export revenues are forecast to increase in 2005 and 2006, to \$150 billion and \$154 billion, respectively, mainly due to higher oil prices. This is important for Saudi Arabia, given that oil export revenues account for nearly 90% of the country's total export earnings. Increased oil prices -- and revenues -- since the price collapse of 1998 have significantly improved Saudi Arabia's economic situation, with real GDP growth of 7.2% in 2003, 5.5% in 2004, and forecasts of 5.6% and 4.7% growth for 2005 and 2006, respectively.<sup>83</sup>

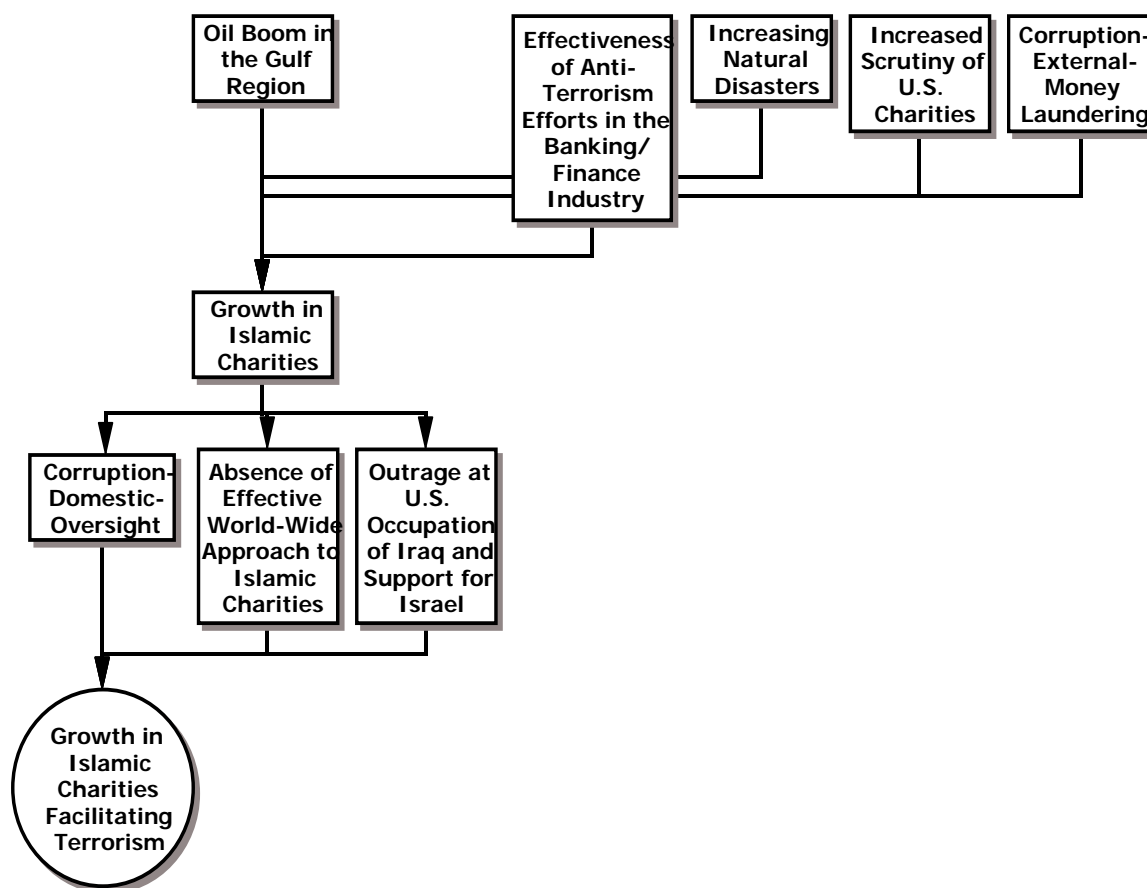
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<sup>82</sup> <http://www.eia.doe.gov/emeu/cabs/orevcoun.html#Saudi>

<sup>83</sup> Saudi Arabian Monetary Agency, Forty-Fourth Annual Report 1426H (2005G), Riyadh: SAMA, 2005

To get a rough idea of the vast amounts of money flowing out of the Middle East with the current oil boom, net official outflows of capital in 2002 were only 5.5 \$ billion. These increased to 44.6 \$ billion in 2003, further to 49.2 \$ billion in 2004, and are expected to increase to \$61.6 billion in 2005 with little sign of a sharp fall-off over the next several years. These figures largely reflect the affluence in the Gulf Region. A similar pattern characterizes private capital outflows. These were in the 2-4 \$billion range in 2003 and 2004, but have increased to 21 \$billion in 2004 and were projected at \$31.2 \$ billion in 2005.<sup>84</sup> Again, these are expected to stabilize in this range over the next several years.

**Figure 2**  
**Factors Affecting Future Charity Funding of Terrorism**



<sup>84</sup> Saudi Arabian Monetary Agency, Forty-First Annual Report 1426H (2005G), Riyadh: SAMA, 2005, p.25.

The surge in government revenues and personal incomes in Saudi Arabia and other Gulf countries should result in a corresponding influx of funds, both public and private into Islamic charities. As Cordesman notes:

Individuals in Saudi Arabia, and many other Arab and Islamic countries, will continue to support such organizations or their fronts, and regional governments can only do so much to limit such funding. Merrill Lynch estimates that the capital controlled by wealthy individuals in the Middle East rose by 29% during 2003-2004, to a level of approximately \$1 trillion dollars raises serious questions about how much governments can do. Much of this capital is in private accounts outside the region, terrorist operations are only moderately expensive, and Merrill Lynch projects a further 9% annual rise in such holdings from 2004 to 2009.<sup>85</sup>

Second, increasing natural disasters in the Middle East/South Asia region in 2005 saw a massive flow of funds into charities to help with the humanitarian crisis associated with the Asian Tsunami and then the devastating Pakistan earthquake. While there are no comprehensive estimates on the exact amount of additional funds placed in charities following these events, there is not doubt the amounts were considerable, with antidotal accounts suggesting many Islamic charities awash with funds.

Third increasing effectiveness against money laundering through commercial banks is likely to result in increased use of charities as a conduit to terrorist groups. On the other hand the effectiveness of U.S. efforts at identifying links between Islamic charities in the U.S. and terrorist groups has reduced flows to charities linked to terrorist groups as well as the ability of other compliant U.S. based charities to attract donations. However there is no reason to suppose that this action in the U.S. has reduced the actual amount of funds reaching terrorist groups from Islamic charities in the Middle East. In fact, one can easily design scenarios whereby these actions cause more money to flow to Islamic charities in the Middle East where the U.S. has much less oversight.

Given the large pool of funds in Islamic Charities potentially available for diversion to terrorist groups, several key factors are likely to affect the actual amounts received by those groups.

Rachel Ehrenfeld<sup>86</sup> contends corruption is a critical variable in effecting the flows of funds to terrorist groups. Unfortunately Saudi Arabia and many of the key countries in the region have some of the highest rates of corruption in the world as measured by Transparency International<sup>87</sup>, a leading authority on identifying corruption. Saudi Arabia ranked 71<sup>st</sup> in 2004<sup>t</sup> (that is there are 70 countries less corrupt) and was 70<sup>th</sup> in 2005.. Other key counties in the region are even more

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<sup>85</sup> Anthony Cordesman, Saudi Arabia: Friend or Foe in the War on Terror,” Saudi-US Relations Information Service, November 8, 2005, p.8.

<sup>86</sup> Rachel Ehrenfeld, Funding Evil: How Terrorism is Financed—and How to Stop it (Chicago: Bonus Books, 2003). To be discussed in more detail in the section below on Iraq

<sup>87</sup> [http://www.transparency.org/pressreleases\\_archive/2004/2004.10.20.cpi.en.html](http://www.transparency.org/pressreleases_archive/2004/2004.10.20.cpi.en.html)

corrupt: Egypt 77, Iran 87 and Libya 108<sup>th</sup>. Significantly these same countries have shown little improvement over the years. As will be discussed in more detail below, Iraq has one of the highest levels of corruption in the world, falling to 137<sup>th</sup> in 2005 from 129 in 2004.

In terms of political will, there is also little to be encouraged about. As noted, in response to U.S. pressure to regulate its charities, Saudi Arabia set up, together with the US the Joint Terror Financing Task Force. As an observer has noted:

Has it been effective? I would submit to you that based on the declared objectives of insuring transparency and regulating the activities of charities in the Kingdom, there is still a lot of work to do on the part of the Saudis. There have been some positive steps taken by the Saudis, but in the larger mix of things, the Joint Task Force has been a relative failure. This is due in large part to the fact that in order for the Joint Task Force to succeed, Saudi Arabia would have to effectively renounce its Wahhabist religious ideology. Its ideology drives its religious institutions, which in turn drive its funding of radical Islam. In the United States, Wahhabist Saudi tracts and publications continue to be exported here to mosques, Islamic centers, prisons, the US military, and radical Islamic groups that operate under false veneer as "civil rights" and "charitable" organizations. Accused terror financiers Wael Jalaidan and Yassim Al Qadi continue to operate with total impunity despite (false) assurances by Saudi officials that their terrorist careers had been shut down, or that they had been put under house arrest.

A recent statement<sup>88</sup> by Saudi Arabia's Minister of Islamic Affairs, Endowments, Dawa and Guidance, Saleh ibn Abdul Aziz Al-Sheikh provides added cause for concern over Saudi Arabia's resolve to close charities aiding terrorism. Toward the end of 2004 the Minister told an audience in Jeddah that al Haramain was closed under US pressure and not because the Saudi government had any "suspicions surrounding its activities." It was closed, he said "to serve the general interest." The ministry, he said, was not aware of any misconduct from the Saudi charity and had not received any documented information to this effect from any side. He re-assured the audience that the Saudi government had no plans to act against any further charities, or to take any additional action against al Haramain employees. They would be free, he said, to find employment in other charities. In the meantime, al Haramain international operations and assets, he said, would be folded into a new body named the Saudi National Commission for Charitable Works Abroad.

Second, outrage at the U.S. and or Israel is a key, but intangible factor in effecting the supply of funds to terrorist organizations and diverting charitable funds towards terrorist groups. Much of the investigation and research related

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<sup>88</sup> Abdul Wahab Bashir, "Kingdom Has no Plans to Close Down Charities," Arab News, January 1, 2005. <http://www.arabnews.com/services/print/print.asp?artid=56890&d=1&m=1&y=2005&hl=Kingdom%20Has%20No%20Plans%20to%20Close%20Down%20Charities>



to al Qaeda has dealt with its funding mechanisms and not with the motivation and dedication that has generated the donations. After four decades of fundamentalist Islamic expansion, a good part of this dedication comes from radical Islamic conviction and its associated absence of tolerance towards other ethnic or religious customs and beliefs. It has generated a growing resentment and alienation toward Western cultural influence in the Muslim world.

The stagnant Israeli-Palestinian situation and the war in Iraq have also served as motivations for recruitment and support of a new generation of al Qaeda-related jihadists. As more and more of these individuals infiltrate the Islamic charities, rising to managerial positions, the likelihood of diversion of funds to terrorist activities is likely to significantly increase.

Finally, the U.S., the European Union, and international financial institutions have failed to adopt common CTF policies, including similar regulatory frameworks, scope of groups targeted, and responses and penalties. There is some evidence that this may encourage jurisdiction shopping by terrorists and their financial supporters. If US counter-terrorism legislation is tougher than Europe's post 9/11, then the incentive is for groups to migrate to the less stringent jurisdiction. Similarly, the failure to achieve a common response at the global level may encourage terrorists to structure their financial support activities to exploit jurisdiction-specific advantages, such as the network of Gulf charities in the Middle East, and weak financial regulation in key states in Africa and Southeast Asia.<sup>89</sup>

The main implication of the factors summarized above is that the current U.S. policies towards Islamic charities will very likely have only a marginal impact at best in reducing the flow of funds toward terrorist organizations. Looking at the bigger picture, there are few bright spots – the charities are likely to have more funds and there are increasing forces and mechanisms to divert these funds to terrorist organizations. There have been some successes at identifying and shutting down some charities, but most of these successes were early-on in the war on terrorism when the charities themselves or those in the charities diverting funds were perhaps careless or unsuspecting that they would come under scrutiny.

### **The Case of Iraq**

Some of the patterns and forces noted in the previous section appear to be playing out in Iraq. Recently the U.S. House Armed Services Committee

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<sup>89</sup> Jeanne K. Giraldo and Harold A. Trinkunas, "The Political Economy of Terrorist Finance and State Responses," in Jeanne K. Giraldo and Harold A. Trinkunas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

heard testimony concerning the financing of insurgent activities in Iraq.<sup>90</sup> This is an interesting area of examination not just because of its importance, but also because it illustrates many of the factors conducive to the growth and effectiveness of Islamic charities in funding terrorist activity.

### **Terrorist Financing**

Recently the U.S. House Armed Services Committee heard testimony concerning the financing of insurgent activities in Iraq.<sup>91</sup> This is an interesting area of examination not just because of its importance, but also because it illustrates many of the factors conducive to the growth and effectiveness of Islamic charities in funding terrorist activity and fostering extremism leading to a steady increase in recruits to terrorist causes.

Of course Islamic charities are not the only source of terrorist/insurgent funding. The funding sources and methods for the insurgency are as diverse as the insurgency itself, thereby presenting significant challenges.<sup>92</sup> Funds from former regime elements coming into Iraq from Syria and other neighboring countries, oil rent based funds from wealthy private individuals in the Gulf, together with the contributions of Islamic charities (knowingly and unknowingly) and the absence of any world wide regulatory/enforcement over the use of charitable funds have apparently created a complex and diversified source of finance for terrorists and the insurgency in Iraq.

More specifically, the financing challenge related to Iraqi terrorism and insurgency is a “complex, formal and informal multi-dimensional phenomenon involving external money flows and internal revenue generation and distribution networks. These numerous revenue generation and distribution structures are mostly decentralized, with different funding sources and streams overlapping and mutually reinforcing each other. Some networks that finance terrorists and insurgents are self-regenerating, especially networks and revenues sources that are internal to Iraq. Finally, terrorists and insurgents are adaptive. In the past, as we've affected one stream of financing, we've observed terrorists and insurgents transition to other areas in response.”<sup>93</sup>

Although hard data is hard to come by, it is all too apparent that corrupt members of transnational charities and non governmental organizations

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<sup>90</sup> “Financing of Iraqi Insurgency,” Joint Hearing of the Terrorism, Unconventional Threats and Capabilities of the House Armed Services Committee and the Oversight and Investigations Subcommittee of the House Financial Services Committee, July 28, 2005.

<sup>91</sup> “Financing of Iraqi Insurgency,” Joint Hearing of the Terrorism, Unconventional Threats and Capabilities of the House Armed Services Committee and the Oversight and Investigations Subcommittee of the House Financial Services Committee, July 28, 2005.

<sup>92</sup> Representative Sue Kelley, op. cit.

<sup>93</sup> Testimony of Caleb Temple, “Financing the Iraqi Insurgency,” Testimony, House Armed Services Committee, July 28, 2005.

around the region and inside Iraq continue to siphon and embezzle money for terrorists and insurgents. The majority of Islamic charities supporting terrorists effectively conceal terrorist connections and launder funds by commingling them with money destined for legitimate humanitarian projects.<sup>94</sup>

Another important component of funding for terrorist/insurgent comes from many of the mosques in Iraq, both Shi'a and Sunni. Mosques act as a conduit for insurgent funding from both internal and external sources. Money is gathered through various means, including alms-giving. Religious leaders of these mosques, such as Imams, are sometimes openly sympathetic to the insurgency and openly espouse support for the antigovernment cause. In some cases, the Imam and Mullah are financially supported by the insurgent group using the mosque, indicating a quid pro quo relationship between insurgents and religious officials.<sup>95</sup>

Particularly worrisome is another growing source of terrorist funding—criminal activity. Terrorists have access to a potentially large revenue base by conducting criminal activities ranging from low level crime and extortion to involvement in smuggling and drug trafficking.<sup>96</sup> Increased criminal activity has implications beyond the direct funding of terrorist/insurgency activities. Crime is effectively stifling attempts to restart and expand the country's formal economic sector. This in turn presents a major challenge to the Iraqi government – how to stop and reverse the insurgent-led deterioration of the economy and the vicious circle of crime-terrorism-low investment-high unemployment and anti-Americanism that it has created.

Admittedly Iraq is an extreme case. However an examination of the manner in which Islamic charities fit in to that country's struggle with terrorism and the insurgency is likely to produce valuable insights at attempts to stem the flow of terrorist/insurgency funding.

### **Corruption in Iraq**

Terrorist financing experts often contend that the major difficulties in combating the flow of funds from charities to terrorist groups are factors such as the shortage of proper regulatory and reporting controls, limited numbers of investigative experts, and the like. While these factors are all to present in Iraq a more fundamental and overriding problem is likely posed by corruption. In her study of world-wide terrorist groups and their financing Rachel Ehrenfeld<sup>97</sup>

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<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

<sup>96</sup> Robert Looney, "The Business of Insurgency" The Expansion of Iraq's Shadow Economy," The National Interest 81 (Fall, 2005), pp 67-72.

<sup>97</sup> Rachel Ehrenfeld, Funding Evil: How Terrorism is Financed and How to Stop It (Chicago: Bonus Books, 2003).

arrived at a similar conclusion. While the effects of corruption vary from country to country, the overall mechanisms are clear. Corruption saps the political will of countries to combat the many sources of terrorist financing.<sup>98</sup> It is also very lucrative for underpaid or intimidated local regulators to look the other way when investigating charity expenditures and receipts.

Iraq's case is extreme.<sup>99</sup> Transparency International Corporation ranks the country with the worst of the worst. Iraq is listed as the most corrupt country in the Middle East. The country's current ranking is 129<sup>th</sup> out of 145 nations world-wide, with the incidence of corruption actually worsening between 2003 and 2004.

The rankings for 2005 are not yet compiled, but there is little reason for optimism. Former Defense Minister Hazem al-Shalaan embezzled close to \$500 million in six months, audacious even by Middle Eastern standards. Even more disturbing is the fact that this was money that clearly could have been used to arm and protect Iraq's army and fight the insurgency. Shalaan's colleagues in the electricity and transport ministries also raked off millions.<sup>100</sup> If such blatant corruption this could take place in such an important ministry and one under intense scrutiny what type of corruption must be taking place in lower-profile regulatory agencies overseeing the country's charitable activities?

The extent of corruption in Iraq is best illustrated by a recent account of affairs in the Kurdish region – commonly considered one of the more stable and well run areas of Iraq:

Take the case of the Iraqi Kurds. Long championed as a model of liberalization, they are becoming a regional embarrassment. Rather than pursue democracy, the Iraqi Kurdish leadership is more consumed with self-enrichment. Following Iraq's defeat in 1991, the Kurds rose in rebellion against Saddam Hussein. The leader of the Kurdish Democratic Party, Massoud Barzani, returned to Iraqi Kurdistan with little but respect for his family name. Fourteen years later, his personal worth is estimated at close to \$2 billion. Corruption and nepotism are rife. No foreign businessman can strike a deal in his region without entering into a partnership with Barzani or a favored relative. Human rights workers in Irbil say they have met Kurds imprisoned for failing to pay kickbacks. Across the region, the Barzani family conflates government, party, and personal property. Local militias uphold not the rule of law but rather serve as Barzani's enforcers. The Kurdish Parliament, meanwhile is

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<sup>98</sup> Quoted in Dan Dagoni, "The Terrorism Business," *Globes*, November 6, 2003.

<sup>99</sup> Excellent accounts of corruption under Saddam Hussein are given in Joseph Braude, *The New Iraq* (New York: Basic Books, 2003)

<sup>100</sup> Michael Rubin, "The Middle East's Real Bane: Corruption," *The Daily Star*, November 18, 2005.

flaccid; its power no greater than that of its Syrian or Libyan counterparts.<sup>101</sup>

A recent analysis<sup>102</sup> of corruption in Iraq of makes the a useful distinction between four types of corruption currently plaguing the country: (1) political corruption, (2) administrative corruption, (3) financial corruption and (4) moral corruption.

1. Political corruption in Iraq is the main source of the country's pervasive corruption, laying the institutional foundation for other forms of corruption.
2. In particular, Iraq's administrative corruption is an outgrowth of its political corruption: incompetent people are appointed for jobs requiring competence, the system of employment is not guided by the criteria of professionalism, expertise, knowledge and ability but instead on the principle of allegiance. In most cases the authority of the party overrides the authority of the government. The institutions of law and order are relegated to a second place.
3. Financial corruption erodes transparency. Government finances are squandered without accountability. Government officials transform to merchants and use or abuse their power and positions to further their own special interests. Fraud and bribery become commonplace.
4. Finally, moral corruption takes a toll on honesty, integrity, truth and professional loyalty. These traits are not respected and valued. Instead hypocrisy, deception and espionage become criteria for allegiance, career promotion and delegation of power.

Corruption has many implications beyond the insurgency and its funding, yet be hampering economic reconstruction and recovery, corruption indirectly assists the insurgency's ability to attract fresh recruits. Empirical studies on the subject have found some striking patterns across many countries whereby corruption:<sup>103</sup>

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<sup>101</sup> Michael Rubin, "The Middle East's Real Bane: Corruption," The Daily Star, November 18, 2005.

<sup>102</sup> Arbil Yekgirtu in Sorani Kurdish weekly newspaper published by Iraqi Kurdistan Islamic Union, November 18, 2005.]

<sup>103</sup> Robert Looney, "Profiles of Corruption in the Middle East," Journal of South Asian and Middle Eastern Studies XXVII:4 (Summer 2005), pp. 9-10.

1. Reduces investment and as a consequence reduces the rate of growth. Such reduction in investment is assumed to be caused by the higher costs and the uncertainty that corruption creates.
2. Reduces expenditure on education and health, because these allocations do not easily lend themselves to corrupt practices on the part of those who make budgetary decisions. Since human capital has been found to be one of the main sources of long-term economic growth, a major cost of corruption is this foregone income.
3. Increases public investment because public investment projects lend themselves to “kick-backs” a related “White Elephant” effect is notorious for diverting capital from more productive private sector activities.
4. Reduces expenditure for operations and maintenance since the normal budgetary process makes corruption more difficult than in the case of normal procurement. The effect is to lower the productivity of public capital, slowing private investment thus producing a drag on economic growth.
5. Reduces tax revenue directly where bribes are paid for tax avoidance. If governments runs deficits to fight off the loss of revenue the loss of revenue, the ensuing inflation may distort and retard the pattern of investment.
6. Reduces foreign direct investment because a corruption has the same effect as a tax. The less predictable the level of corruption (the higher is it’s variance) the greater the impact of foreign direct investment.

In a similar manner corruption has taken a heavy toll on the Iraqi economy. Iraqi corruption has, along with the insurgency, been largely responsible for the deteriorating economic situation, high unemployment and widespread frustration. It’s interesting to note that in a recent statistical study<sup>104</sup>, control of corruption was the most significant variable (economic or governance) affecting per capita income in the Middle East/North Africa (MENA) region. In the last Iraqi election, many voters cited corruption as the main reason they voted for Islamic candidates.

### **The Problem of Extremism**

Specifying direct links between Islamic charity activity, corruption, the deteriorating economic situation and a key element of insurgent/terrorist activity -- extremist recruitment in Iraq is also difficult simply because a multitude of factors are at work – some more important for certain individuals,

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<sup>104</sup> Ibid. pp. 1-20.

other factors more important for different groups. The development of large numbers of extremist recruits requires at least three elements (1) lack of state capacity, particularly in the areas of police, intelligence, and law enforcement; (2) a "mobilizing belief," such as Salafist/jihadist extremism; and (3) appropriate agitators who can propagate these ideas and create an effective terrorist force.<sup>105</sup> Clearly (1) and (3) are present in Iraq with (2) a latent factor that Islamic charities are able to cultivate.

While our knowledge of the extent of Islamic charities involvement in the Iraqi insurgency is sketchy, Chechnya provides a good case study of their likely role.<sup>106</sup> Evidence collected by Russian and U.S. authorities suggests that the same sources that financed Al-Qaeda in Afghanistan also supported the main Chechen commanders.

Russia's Domestic Security Agency (FSB) has identified Islamic charities operating in Chechnya and elsewhere in the region. Al-Haramain, for example, a Saudi-based charity whose assets in the United States have been frozen by the U.S. Treasury Department, operated for years in Russia and Chechnya, contributing US\$50 million to the mujahideen. In 1997, for example, Al-Haramain financed Dagestani extremist formations "of Wahhabist orientation," whose objective was to overthrow the "constitutional order existing in the republic" and create an Islamic state in the territory of Dagestan and Chechnya.

The FSB also reported that Al-Haramain sponsored the Foundation for Chechnya, which served as a mechanism to supply the mujahideen.[44] Al-Haramain derived a portion of its funds for Chechen operations from American sources. In February 2005, a federal grand jury indicted the Ashland, Oregon branch of the charity and two top Al-Haramain officers for various money-laundering offences after a lengthy U.S. Internal Revenue Service investigation that uncovered an alleged scheme by officers of the charity to funnel money in support of Chechen jihadists.

The Benevolence International Foundation, a Chicago-based charity, also pumped money to Chechen Islamists. According to a U.S. government affidavit filed in a Chicago court:

In 1995, Madani al-Tayyib (then in the Sudan serving as Al-Qaida's chief financial officer) asked an Al-Qaida member to travel to Chechnya through Baku, Azerbaijan, to join with Al-Qaida in the fighting in Chechnya. The Al-Qaida member ... was told that he would be joining

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<sup>105</sup> William Rosenau, "Al Qaida Recruitment Trends in Kenya and Tanzania," *Studies in Conflict and Terrorism* 28 (2005), pp. 1-10.

<sup>106</sup> The following Chechnya account is based on Lorenzo Vidino, "How Chechnya Became a Breeding Ground for Terror," *The Middle East Quarterly* XII:3 (Summer 2005).

up with Ibn al-Khattab, a mujahideen leader who had worked in Afghanistan with bin Laden. At about this time, a website used by Chechen mujahideen indicated that Ibn al-Khattab led the Arab contingent of fighters in Chechnya. BIF [Benevolence International Foundation] had been identified on the Internet website as conduits for financial support to those fighters.<sup>107</sup>

Front organizations are just one of the means used by terrorists to smuggle cash into Chechnya. Despite their efforts to stop the money coming from abroad, the Russian domestic security agency reports that up to \$1 million a month in remittances from Islamists and the Chechen diaspora reaches Chechnya, delivered by couriers who travel through Georgia.[50] Donations are often sent to Chechnya through hawala<sup>108</sup>, a system used in the Middle East to transfer money informally through a network of couriers and acquaintances, and are, therefore, particularly hard to trace.<sup>109</sup>

The situation in Iraq has some similarities to that in Chechnya, but differs due to specific factors such as ethnic conflicts, a large criminal element hold-over from the period of sanctions, and whole spectrum of other contributing factors, some of which are summarized<sup>110</sup> in Figure 3. What is fairly certain is that the longer the economy remains incapable of providing viable work for large segments, and is seen as incapable of doing so in the future, the more attractive extremism will become and the more effective Islamic based charities in facilitating terrorist operations and recruitment.

As in the case of Chechnya, Islamic charities facilitate the insurgency in two key ways (Figure 3) – through their direct funding and through their promotion of religious extremism. In this sense they are able to capitalize on the widespread discontent created by corruption and economic malaise.

Yet, despite their important role in supporting the insurgency, increased efforts to halt their funding would seem to be a waste of time and resources. First, without overcoming corruption, rules, regulations, and oversight of the charities would be futile. Corrupt or sympathetic officials will always find a way to circumvent restrictions. Second the terrorists/insurgents will simply shift to alternative sources of funding – some of which may make the situation even worse.

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<sup>107</sup> Government Evidentiary Proffer Supporting the Admissibility of Co-conspirator Statements,” United States of America v. Enaam M. Arnout, U.S. District Court, Northern District of Illinois, Eastern Division, 02-CR-892 (N.S. Ill. Filed Jan6, 2003), p. 26.

<sup>108</sup> Cf. Robert Looney, Hawala: The Terrorist’s Informal Financial Mechanism,” Middle East Policy X:1 (Spring 2003), pp. 164-167.

<sup>109</sup> Lorenzo Vidino, op. cit.

<sup>110</sup> For a detailed description of the Iraqi case see Robert Looney, Socio-Economic Strategies to Counter Islamic Extremism in Iraq,” Middle East Policy (forthcoming2006).

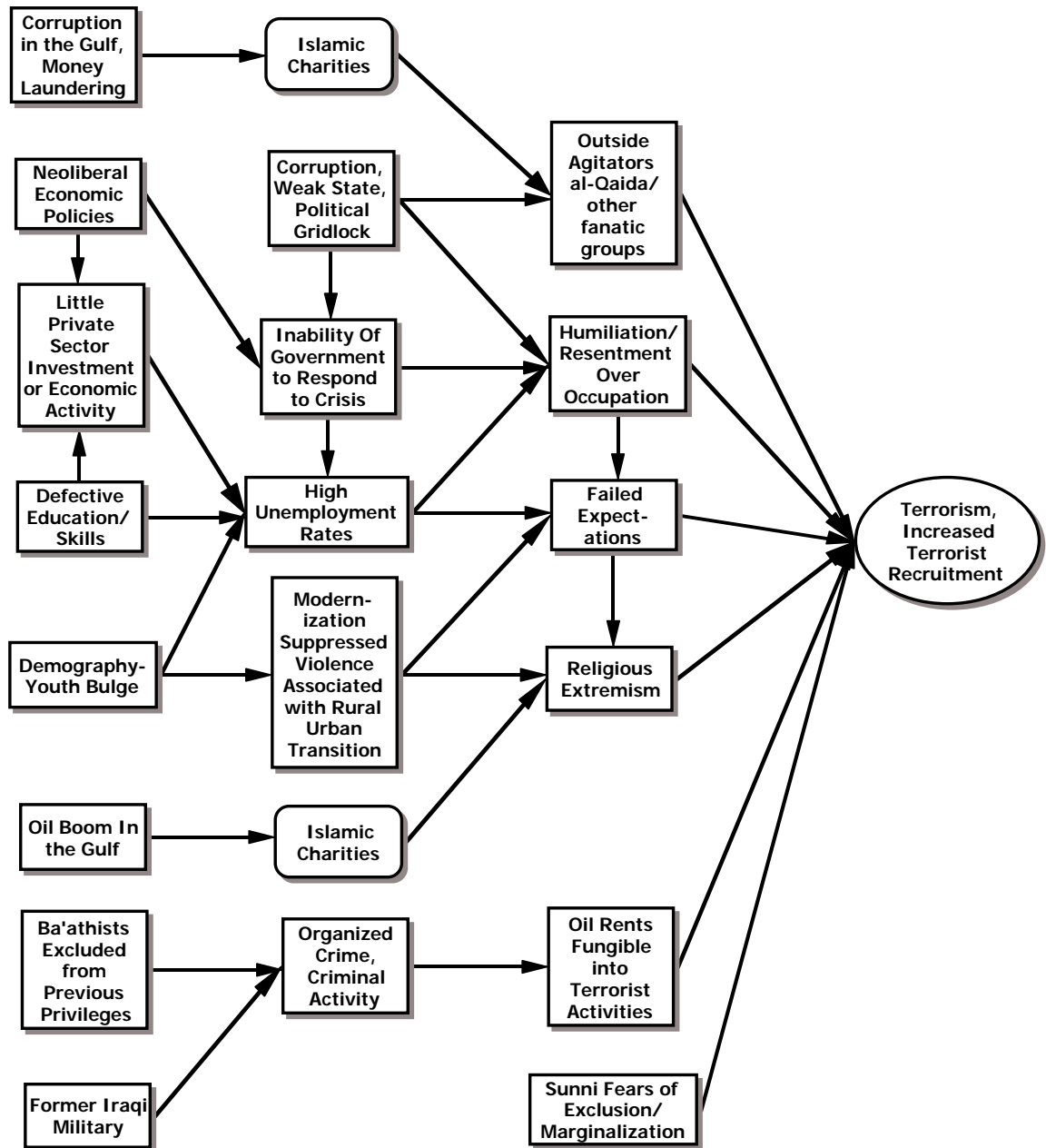


One notable example is the success the insurgency has had in raising money through criminal activity. Terrorist/insurgent attacks on the country's pipelines and refineries have created a possibility whereby unscrupulous Iraqi officials and oil traders together with organized criminals have the opportunity to make huge profits buying gasoline at the official price, and then selling it on the black market.<sup>111</sup> According to an Oil Ministry report leaked to the Baghdad paper *Al-Furat*, a gas station owner selling a tanker-load of gasoline at the official price could expect to make IQD 500,000—about US\$340—in profit while selling the same petrol on the black market would net more than IQD7m—about US\$4,800.

Figure 3  
Iraq: Islamic Charities, Extremism and the Insurgency

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<sup>111</sup> Cf Robert Looney, "The Business of Insurgency: The Expansion of Iraq's Shadow Economy" *The National Interest* 81 (Fall 2005), pp. 3-4.



The government has already begun to clamp down on those officials and gasoline station owners who are allowing the gasoline to leak into the black market. The distribution direction in al Amarah, south of Baghdad has been arrested for selling most of the governorate's gasoline on the black market; three managing directors in the Oil ministry have been suspended; and several government-owned petrol stations closed pending investigation.

However, largely outside of the government's reach the insurgents continue to thrive. They control many of the distribution routes in the country. Leveraging this advantage they have been able to profit from the differential

between the official, subsidized price and the international market price for petrol by smuggling the fuel out of the country. This not only allows insurgents to raise huge amounts of money to fund their operations, but also helps them to inflame popular opposition to the occupation. To add insult to injury, the insurgents often simply sell, through various front organizations, the gasoline back to the government to begin another cycle.

While no hard data exists on the profits earned by the insurgency through black market arbitrage, a safe guess is that it is likely to be in the high millions. The cost to the government stemming from providing subsidized gasoline amounts to \$5 billion in lost revenues, or about \$200 per person.<sup>112</sup> The effect on the country's stability is two-pronged. With rising costs of reconstruction and security the government's ability to fight the insurgency declines at the same time it is in effect subsidizing insurgent activities. Simple outright theft and smuggling compound the losses to the country stemming from black market arbitrage. CPA officials estimated in early 2004 that smugglers were able to steal up to \$200,000 worth of oil a day.

### **Policy Implications**

The lesson from this and other accounts of criminal activity it is fairly clear that no progress will be made in stemming the flow of Islamic charity funding intended for terrorist/insurgent groups in Iraq until corruption is brought under control. This is not to say that the current efforts should be cut-back or suspended. Instead, policymakers must realize that the charities are only one cog in a bigger picture, without changing the supportive environment, especially corruption, little can be done to stem the funding received by insurgents/terrorists in Iraq.

How is corruption to be reduced in Iraq? Given corruption's pervasiveness at all levels of government it is unlikely that the system is capable of reforming itself. On the other hand, empirical evidence from a large sample of countries suggests that indirect methods may produce significant results over time. These include various improvements in certain areas of governance<sup>113</sup> (voice and accountability, regulatory quality, political stability, government effectiveness, and rule of law) as well as improved economic freedom.<sup>114</sup> Statistically the sharpest patterns were found after separating countries into two groups: MENA (Middle East North Africa) and non-MENA.

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<sup>112</sup> <http://www.ecoi.net/doc/en/IQ/content/9/7659-7848>

<sup>113</sup> Data is from Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, *Governance Matters III: Governance Indicators for 1996-2002* (Washington: The World Bank, June 30, 2003), p. 97. The complete data set and description of the measures can be found at: [www.worldbank.org/wbi/governance/govdata2002/](http://www.worldbank.org/wbi/governance/govdata2002/)

<sup>114</sup> For the economic freedom index as well as a discussion of its key components see *Index of Economic Freedom Rankings*, (Washington: Heritage Foundation), various issues).

Unfortunately, the task of reducing corruption appears easier in the non-MENA countries. For these nations, improved government effectiveness appears to carry over to positive action in the control of corruption. Improved voice and democracy also appear important in this regard. By contrast, in the MENA region, improvements in over-all economic freedom and political stability appear to be the critical areas leading to improvements in the control of corruption. In other words the non-MENA countries appear to undertake anti-corruption under a more democratic political process together with pressure from a more efficient governmental structure for eliminating corruption. In the MENA countries, political stability appears to be critical for anti-corruption efforts. In this context anti-corruption is possibly seen as a necessary complement to maintain gains in economic freedom. This model predicts well over 90 percent of the differences in corruption throughout the MENA region.<sup>115</sup>

### **Assessment**

Clearly there are some specific areas of action that the U.S. should pursue in combating the impact of Islamic charities, especially those based in Saudi Arabia. To the extent that Saudi Arabia and its charities are contributing to the financing of the insurgency, encouraging extremism and facilitating Saudis' participation in the conflict, the U.S. should pressure the Saudis to:<sup>116</sup>

1. Stop allowing young, male Saudi nationals who have never left home before from buying one-way airline tickets to Damascus, Syria without first being questioned by law enforcement.
2. Urge Saudi Muslim clerics like Salman al-Awdah and Safar al-Hawali to issue a new fatwah reversing their previous ruling that judged the war in Iraq to be an authentic jihad mandating the participation of all able-bodied Muslims from across the Middle East. Dozens of Saudi foreign fighters in Iraq have cited that fatwah as a prime motivating factor in their decision to join Abu Musab al-Zarqawi.
3. Carefully monitor the flow of money from individual Saudi donors and religious charities like the World Assembly for Muslim Youth (WAMY) to ensure that humanitarian efforts in Iraq are not being used as a cover for extreme Salafists and anti-U.S. militants.

A more permanent solution, however, lies in giving anti-corruption efforts a high priority. Not only would an improved corruption situation aid in

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<sup>115</sup> Robert Looney, Profiles of Corruption in the Middle East," op. cit.

<sup>116</sup> Evan Kohlmann, on the Counterterrorism Blog, November 13, 2005.  
[http://counterterror.typepad.com/the\\_counterterrorism\\_blog/](http://counterterror.typepad.com/the_counterterrorism_blog/)

enforcing restrictions on charity activity and money laundering, improved control of corruption appears critical for moving the country up the per capita income ladder. If Iraq is at all similar to other countries in the region, effective efforts in reducing corruption should pay high dividends in inducing follow on improvements in other areas of governance, especially voice and accountability, political stability, government effectiveness, and to a lesser extent regulatory quality.<sup>117</sup> Unfortunately, an improved corruption environment does not appear to significantly stimulate follow-on reforms in economic reforms.

Clearly its problematic the extent to which reforms can or should be encouraged by countries outside the region. A group of first class Arab minds, the Project for Democracy Studies in Arab Counties, has stressed the importance of indigenous initiated reforms<sup>118</sup>:

The sense of managing alone contrasts sharply with the attitude of most Arab commentators, who delight in blaming the rest of the world for every misfortune, real or imagined, and look to right all wrongs. The Oxford delegates believe that it is only Arabs themselves who can create the institutions in their societies that can lead them to a better future.

To a certain extent, the basis for an indigenous reform process may already exist in Iraq as a result of the economic measures put in place in late 2003 by Coalition Provisional Authority (CPA).<sup>119</sup> These free market reforms have been somewhat controversial, and it is easy to argue that at least so far they have contributed to the economy's sorry state. Still by increasing the extent of economic freedom<sup>120</sup> in the country, they have laid a solid foundation for recovery once it begins to take hold. As noted above, in the MENA region control of corruption MENA appears to improve with increases in the over-all economic freedom score as well as improvements in political stability. Because improvements in the corruption situation in the MENA countries do not appear to stimulate follow on economic reforms there may be a very positive role for countries outside the region to play. Here the United States, through international organizations such as the IMF, and the WTO can play an active role in supporting reforms – trade liberalization to comply with WTO agreements for example. To the extent that a direct U.S. approach of trying to speed up the democratization process might cause increased political instability in the region, the most effective path for the U.S may well be an indirect multilateral one.

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<sup>117</sup> Cf. Robert Looney, "Profiles of Corruption in the Middle East," op.cit.

<sup>118</sup> Mai Yamani, The Middle East's Lost Resources: Arab Blues at Oxford," International Herald Tribune, September 3, 2004.

<sup>119</sup> Robert Looney, "Iraq's Economic Transition: The Neoliberal Model and Its Role," The Middle East Journal 57:4 (Autumn 2003), pp. 568-587.

<sup>120</sup> The economic freedom index is a composite of the various categories of policies towards foreign investment, trade policy, banking and finance and the like.

## Implications for the Future

The problem of aggressively confronting Islamic charities is that terrorist financing is a hydra—if one head gets cut off, two more appear—leaving policy makers always behind the power curve. Are there other indirect measures in addition to those noted above that might be effective in combating charity based terrorist/insurgency funding? One option is to focus not only on money, but on the demand driving the money. Within such an expanded policy framework, funding for terror is viewed as a product of an ideology which must be countered.<sup>121</sup>

Inherent in this view is the assumption that as long as there is a desire for people to donate to radical Islamist causes, they will find a way to do so, even if under the guise of charitable contributions. In this line of reasoning, the struggle over terrorism finance boils down to a struggle of ideology, and an increasing number of analysts advise that until nations recognize and come to terms with this, they will not substantially impact terrorist financing and will not win the war on terror.<sup>122</sup>

Undermining the effectiveness of U.S. policies designed to combat terror financing is a perception that they are contrary or hostile to a central tenet of Islam, *zakat*, which requires financial contribution to Islamic causes.<sup>123</sup> To counter this problem, some advocate that policy needs to facilitate channeling of charitable donations to non-jihadist causes; this approach would necessitate the identification of organizations and charities which *are* terrorist connected or terrorist fronts. On the other hand, donors need to be able to identify legitimate charities without terrorist connections.<sup>124</sup>

Central to such efforts are better communication and greater government understanding of the cultural basis and operational dynamics of Islamic charities. For example, under a recently created Treasury Department/FBI

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<sup>121</sup> Raphael Perl, "Anti-Terror Strategy, The 9/11 Commission Report and Terrorism Financing: Implications for U.S. Policymakers," in Jeanne K. Giraldo and Harold A. Trinkinas eds, *The Political Economy of Terrorism Finance and State Responses: A Comparative Perspective* (Stanford: Stanford University Press, Forthcoming 2006).

<sup>122</sup> Ibid.

<sup>123</sup> Note, however, that funding from charity or relief organizations, though a significant source of funding for terrorist operations, is by no means the sole source. The 2002 National Money Laundering Strategy of the United States points out that terrorist groups tap into a wide range of sources for their financial support, including otherwise legitimate enterprises such as construction companies, honey shops, tanneries, banks, agricultural commodity brokers, trade businesses, bakeries, restaurants, and bookstores. The strategy also states that terrorists receive material assistance and/or financial support from rogue nations and other governments that are sympathetic to the terrorists' cause. See [www.treas.gov/press/releases/docs/monlaund.pdf](http://www.treas.gov/press/releases/docs/monlaund.pdf).

<sup>124</sup> Wayne Parry, "U.S. Rejects Muslims' Plea for 'Approved' Charities," Associated Press dispatch, October 14, 2004.

joint outreach program, agency representatives are conducting seminars in the Arab-American community to increase awareness of agency concerns and of potential pitfalls with regard to charitable donations. There is a similar need internationally.<sup>125</sup>

Within this general area of indirect approaches toward combating Islamic support of terrorist organizations a number of promising alternatives have been suggested<sup>126</sup>

1. Rethinking assumptions and expanding policy to include a demand/supply framework aimed at reducing the pool of potential contributors to terrorist causes, including working with those who offer alternatives to radical Islam and those who seek to discredit the ideology of radical Islamists.
2. Adopting a mindset which increasingly views money as a tool of terrorism and as a source of information to be studied, not merely as a product to be seized.
3. Placing more emphasis on international coalition building with much of the focus on diplomacy rather than on seizing assets or monitoring financial flows. Once built and solid, a coalition of this nature could be expanded into other areas of mutual interest and concern.
4. Initiating a concerted effort to assess our current knowledge of data on Islamic charities: (a) What data is currently available on the charities and their support of terrorist organizations? (2) The best way to expand our data base in this regard? and (3) How to apply state of the art technology to mine the data as a means of identifying suspicious patterns of activity?
5. Concentrating on high-value targets: significant money, suspicious transactions, key financiers, charities and front groups.
6. Giving the matter of state sponsorship of terror an invigorated priority. To what degree is the current policy focus on al Qaeda type networks drawing attention away from the reported role of states such as Saudi Arabia, Iran, and Syria in funding, facilitating, or countenancing the financing of terror? What enticements and sanctions can the United States and the international community bring to bear on so-called "rogue" nations?

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<sup>125</sup> Raphael Perl, op. cit.

<sup>126</sup> Ibid.

7. Developing and implementing more proactive policies. For example, how might we maximize the legal right of contributors worldwide to demand an accounting of how charitable donations are used? How might the funding of militant *madrassas* throughout the world better be discouraged? How will a terrorist organization respond to the shutting down of a particular source of funding, and how does one stay ahead of the curve? (This may include utilizing sting operations, covert actions, and other means against terrorist financial centers, businesses, and individuals engaged in facilitating terrorism through funding.)

8. Devoting more policy focus to combating criminal activities—such as piracy of intellectual property rights, narcotics and human trafficking, counterfeiting, etc.—which are being used as sources of funding by terrorists.